

8 February 2011



Codan Limited  
ABN 77 007 590 605  
81 Graves Street  
Newton SA 5074  
Australia

PO Box 96  
Campbelltown SA 5074  
Australia

**COMPANY ANNOUNCEMENTS PLATFORM**  
**AUSTRALIAN SECURITIES EXCHANGE**

**CODAN LIMITED RESULTS**  
**HALF YEAR ENDED 31 DECEMBER 2010**

Codan Limited (ASX: "CDA") today announced an underlying net profit after tax of \$10.4 million from \$83.8 million of revenue which is the second highest first half result ever achieved by the company. This compares to a \$14.8 million underlying NPAT from \$89.4 million of revenue in the previous corresponding half year.

The reported net profit after tax for the half year was \$14.0 million which is a record half year performance for the company. This compares to the previous corresponding period profit of \$13.6 million which was also a record half year result for Codan Limited at that time.

The reported net profit after tax exceeded the underlying net profit after tax as a result of:

- the profit recorded on the sale of the Codan Broadcast business of \$0.7 million;
- the sale of the minority interest investment held in GroundProbe Pty Ltd which resulted in a profit after tax of \$3.6 million; and
- expenses associated with integration and restructuring activities of \$0.7 million.

As previously advised by the Board, we did not expect the exceptional profit result achieved in FY10 to be repeated in FY11 as demand for Minelab gold machines in the artisanal market normalised from the boom conditions experienced.

We have continued to experience higher than expected demand for Minelab gold detectors, however sales of our High Frequency (HF) radio products have been significantly lower than expected during the first half. This has been due mainly to delays with large government projects, the majority of which we have now secured for delivery in the second half.

Net borrowings increased by \$7.5 million principally as a result of the company paying \$6 million more in income tax in this half year period which related to the record performance of the financial year ended 30 June 2010.



The company announced an interim dividend of 4.0 cents per share, which represents an increase of 0.5 cents on the previous interim dividend and reflects Management and the Board's confidence in the fundamental strength of the business.

With the retirement of Mike Heard in November 2010 the successful transition of Managing Director and Chief Executive Officer responsibilities to Donald McGurk has been completed.

Codan Summary Financial Performance						
	Dec-10		Half Year Ended Dec-09		Dec-08	
	\$m	%	\$m	%	\$m	%
<b>Revenue</b>						
Communication Products	33.0	39%	38.1	43%	41.2	58%
Metal Detection	46.6	56%	45.0	50%	21.9	31%
Other	4.2	5%	6.3	7%	8.0	11%
<b>Total Revenue</b>	<b>83.8</b>	<b>100%</b>	<b>89.4</b>	<b>100%</b>	<b>71.1</b>	<b>100%</b>
<b>Underlying business performance</b>						
<b>EBITDA</b>	20.2	24%	26.6	30%	16.8	24%
<b>EBIT</b>	16.2	19%	22.3	25%	12.9	18%
Interest	(1.4)		(1.6)		(3.0)	
<b>Net profit before tax</b>	<b>14.8</b>	<b>18%</b>	<b>20.7</b>	<b>23%</b>	<b>9.9</b>	<b>14%</b>
<b>Underlying net profit after tax</b>	<b>10.4</b>	<b>12%</b>	<b>14.8</b>	<b>17%</b>	<b>7.2</b>	<b>10%</b>
<b>Non-recurring income / (expenses) after tax:</b>						
Sale of minority interest in GroundProbe Pty Ltd	3.6					
Sale of Codan Broadcast Products Pty Ltd	0.7					
Integration and Restructuring Costs*	(0.7)		(1.2)		(0.5)	
<b>Net profit after tax</b>	<b>14.0</b>		<b>13.6</b>		<b>6.7</b>	
Underlying earnings per share, fully diluted	6.3 cents		8.9 cents		4.5 cents	
Dividend per share	4.0 cents		3.5 cents		3.0 cents	

\* Integration and restructuring expenses following the acquisition of Minelab and Locus Microwave.

## Metal Detection

With the continuing high gold price, sales of the Company's specialised gold detectors worldwide continued to be strong, although, as expected, at levels below the peaks reached in FY10. Sales of the Company's coin and treasure detectors and the specialist Countermine detectors for mine clearance matched expectations.

## **Communications Products**

HF radio communications continues to improve its market position in the targeted global security, military and peacekeeping segments. While order timing drove HF sales below expectations in the first half, significant orders received in the second half have resulted in a very strong order book, and the pipeline of sales opportunities is robust.

Business conditions remain difficult for our satellite communications products with the increasingly strong Australian dollar and ongoing consolidation and technology changes in the industry which continue to lower average selling price.

## **Integration and Restructuring**

The key activities undertaken over the half year were as follows:

- The production of Minelab gold and coin and treasure metal detection machines has now been successfully transferred to our outsourcing partner in Malaysia. Our Adelaide manufacturing facility continues to oversee this production and also continues to manufacture the mine clearance metal detection products.
- The sale of the Codan Broadcast business was completed in August 2010 for proceeds of \$0.7 million.
- The land and buildings held in Ireland, which was a former manufacturing site for Minelab products and which was closed in FY10, was sold at book value, generating a positive cash inflow of \$0.6 million.
- The satellite communications operations in the United States were consolidated with Locus Microwave and we continue to integrate these product groups.

## **Outlook**

### *Minelab Metal Detectors*

While no longer operating at the peaks of FY10, the business is expected to continue to be strong in the second half, with particular ongoing strength in the artisanal gold mining market. Sales for artisanal gold mining applications are now being generated from a diverse range of countries where Minelab is directly marketing its detection technology and the application of the machine. Sales for the other metal detection products are expected to be solid.

### *Codan Communication Products*

With the continued growth in the sales opportunity pipeline and the current expectation as to the timing of the resulting orders, the sales of HF radio products are expected to strengthen during the second half of FY11, with continued momentum into FY12.

For satellite communications, a focus on outsourcing and product cost-down will improve profitability and revenue growth is expected from Locus Microwave products as the deployment of projects for X-Band products increases.

*Overall*

The strong financial performance of the group has continued into FY11. The Board now expects that the full year FY11 underlying NPAT will be in the range of \$20 million to \$22 million.

On behalf of the Board



Michael Barton  
Company Secretary  
8 February 2011

**FOR ADDITIONAL INFORMATION, PLEASE CONTACT:-**

Donald McGurk  
Managing Director & CEO  
Codan Limited  
(08) 8305 0392

Michael Barton  
Company Secretary & CFO  
Codan Limited  
(08) 8305 0392

**Codan Limited  
and its controlled entities**

**Appendix 4D  
Half Year Report under ASX Listing Rule 4.2A.3**

**Period ended on 31 December 2010**

ABN  
77 007 590 605

Previous corresponding period  
31 December 2009

Results for announcement to the market				\$A'000
Revenue from ordinary activities	Decreased	6.3%	to	83,775
Underlying profit after tax	Decreased	29.9%	to	10,397
Profit from ordinary activities after tax attributable to members	Increased	3.3%	to	14,047
Dividends	Amount per security		Franked amount per security at 30% tax	
Interim dividend	4 cents		4 cents	
Record date for determining entitlements to dividends:	18 March 2011			
<i>Brief explanation of any figures disclosed above which is necessary to enable the figures to be understood:</i>				
The profit from ordinary activity after tax of \$14.0m for the period ended 31 December 2010 compared with \$13.6m in the previous corresponding period.				
The underlying net profit after tax, before gains on sale of investments and integration and restructuring expenses was \$10.4m for the period ended 31 December 2010 compared with \$14.8m in the previous corresponding period.				
The Interim Financial Report for the half year ended 31 December 2010 dated 8 February 2011, forms part of and should be read in conjunction with this Half Year Report (Appendix 4D).				
This report is based on half-year financial statements that have been reviewed. The auditor's review report is included in the Interim Financial Report for the half year ended 31 December 2010.				

**Codan Limited  
ABN 77 007 590 605  
and its Controlled Entities**

**Interim Financial Report  
for the half year ended  
31 December 2010**

## Directors' report

Codan Limited and its Controlled Entities

The directors present their report together with the consolidated interim financial report for the half-year ended 31 December 2010 and the auditor's review report thereon.

### Directors

The directors of the company at any time during or since the end of the half-year are:

<b>Name</b>	<b>Period of directorship</b>
David Klingner	Director since 2004
Donald McGurk	Director since May 2010
<i>Managing Director and Chief Executive Officer</i>	
Michael Heard	Director since 1991 ( <i>retired November 2010</i> )
Brian Burns	Director since 1996 ( <i>alternate director from 1990</i> )
Peter Griffiths	Director since 2001
David Klingberg	Director since 2005
Peter Leahy	Director since September 2008
David Simmons	Director since May 2008

### Principal activities

The principal activities of the consolidated entity during the course of the half-year were the design, development, manufacture and sale of communications equipment, metal detection equipment, printed circuit boards, electronic equipment for the broadcast industry and electronic components and sub-assemblies for various industries.

Other than the sale of Codan Broadcast Products Pty Ltd, there have not been any significant changes in the nature of the activities of the consolidated entity during the period.

### Review and results of operations

Codan Limited (ASX: "CDA") today announced an underlying net profit after tax of \$10.4 million from \$83.8 million of revenue which is the second highest first half result ever achieved by the company. This compares to a \$14.8 million underlying NPAT from \$89.4 million of revenue in the previous corresponding half year.

The reported net profit after tax for the half year was \$14.0 million which is a record half year performance for the company. This compares to the previous corresponding period profit of \$13.6 million which was also a record half year result for Codan Limited at that time.

The reported net profit after tax exceeded the underlying net profit after tax as a result of:

- the profit recorded on the sale of the Codan Broadcast business of \$0.7 million;
- the sale of the minority interest investment held in GroundProbe Pty Ltd which resulted in a profit after tax of \$3.6 million; and
- expenses associated with integration and restructuring activities of \$0.7 million.

As previously advised by the Board, we did not expect the exceptional profit result achieved in FY10 to be repeated in FY11 as demand for Minelab gold machines in the artisanal market normalised from the boom conditions experienced.

We have continued to experience higher than expected demand for Minelab gold detectors, however sales of our High Frequency (HF) radio products have been significantly lower than expected during the first half. This has been due mainly to delays with large government projects, the majority of which we have now secured for delivery in the second half.

Net borrowings increased by \$7.5 million principally as a result of the company paying \$6 million more in income tax in this half year period which related to the record performance of the financial year ended 30 June 2010.

The company announced an interim dividend of 4.0 cents per share, which represents an increase of 0.5 cents on the previous interim dividend and reflects Management and the Board's confidence in the fundamental strength of the business.

With the retirement of Mike Heard in November 2010 the successful transition of Managing Director and Chief Executive Officer responsibilities to Donald McGurk has been completed.

<b>Codan Summary Financial Performance</b>						
	<b>Dec-10</b>		<b>Half Year Ended Dec-09</b>		<b>Dec-08</b>	
	<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>	<b>\$m</b>	<b>%</b>
<b>Revenue</b>						
Communication Products	33.0	39%	38.1	43%	41.2	58%
Metal Detection	46.6	56%	45.0	50%	21.9	31%
Other	4.2	5%	6.3	7%	8.0	11%
<b>Total Revenue</b>	<b>83.8</b>	<b>100%</b>	<b>89.4</b>	<b>100%</b>	<b>71.1</b>	<b>100%</b>
<b>Underlying business performance</b>						
<b>EBITDA</b>	20.2	24%	26.6	30%	16.8	24%
<b>EBIT</b>	16.2	19%	22.3	25%	12.9	18%
Interest	(1.4)		(1.6)		(3.0)	
<b>Net profit before tax</b>	<b>14.8</b>	<b>18%</b>	<b>20.7</b>	<b>23%</b>	<b>9.9</b>	<b>14%</b>
<b>Underlying net profit after tax</b>	<b>10.4</b>	<b>12%</b>	<b>14.8</b>	<b>17%</b>	<b>7.2</b>	<b>10%</b>
<b>Non-recurring income / (expenses) after tax:</b>						
Sale of minority interest in GroundProbe Pty Ltd	3.6					
Sale of Codan Broadcast Products Pty Ltd	0.7					
Integration and Restructuring Costs*	(0.7)		(1.2)		(0.5)	
<b>Net profit after tax</b>	<b>14.0</b>		<b>13.6</b>		<b>6.7</b>	
Underlying earnings per share, fully diluted	6.3 cents		8.9 cents		4.5 cents	
Dividend per share	4.0 cents		3.5 cents		3.0 cents	

\* Integration and restructuring expenses following the acquisition of Minelab and Locus Microwave.

#### **Metal Detection**

With the continuing high gold price, sales of the Company's specialised gold detectors worldwide continued to be strong, although, as expected, at levels below the peaks reached in FY10. Sales of the Company's coin and treasure detectors and the specialist Countermine detectors for mine clearance matched expectations.

#### **Communications Products**

HF radio communications continues to improve its market position in the targeted global security, military and peacekeeping segments. While order timing drove HF sales below expectations in the first half, significant orders received in the second half have resulted in a very strong order book, and the pipeline of sales opportunities is robust.



Business conditions remain difficult for our satellite communications products with the increasingly strong Australian dollar and ongoing consolidation and technology changes in the industry which continue to lower average selling price.

### **Integration and Restructuring**

The key activities undertaken over the half year were as follows:

- The production of Minelab gold and coin and treasure metal detection machines has now been successfully transferred to our outsourcing partner in Malaysia. Our Adelaide manufacturing facility continues to oversee this production and also continues to manufacture the mine clearance metal detection products.
- The sale of the Codan Broadcast business was completed in August 2010 for proceeds of \$0.7 million.
- The land and buildings held in Ireland, which was a former manufacturing site for Minelab products and which was closed in FY10, was sold at book value, generating a positive cash inflow of \$0.6 million.
- The satellite communications operations in the United States were consolidated with Locus Microwave and we continue to integrate these product groups.

### **Outlook**

#### ***Minelab Metal Detectors***

While no longer operating at the peaks of FY10, the business is expected to continue to be strong in the second half, with particular ongoing strength in the artisanal gold mining market. Sales for artisanal gold mining applications are now being generated from a diverse range of countries where Minelab is directly marketing its detection technology and the application of the machine. Sales for the other metal detection products are expected to be solid.

#### ***Codan Communication Products***

With the continued growth in the sales opportunity pipeline and the current expectation as to the timing of the resulting orders, the sales of HF radio products are expected to strengthen during the second half of FY11, with continued momentum into FY12.

For satellite communications, a focus on outsourcing and product cost-down will improve profitability and revenue growth is expected from Locus Microwave products as the deployment of projects for X-Band products increases.

### **Overall**

The strong financial performance of the group has continued into FY11. The Board now expects that the full year FY11 underlying NPAT will be in the range of \$20 million to \$22 million.

### **State of affairs**

There were no significant changes in the state of affairs of the Group other than those referred to in the financial statements and notes thereto.

### **Dividends**

The directors have declared an interim fully franked dividend of 4.0 cents per share, payable on 1 April 2011. This represents an increase of 0.5 cents on the previous interim dividend.



### **Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the half year ended 31 December 2010.

**Rounding off**

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

This report is made with a resolution of the directors:

  
\_\_\_\_\_  
Dr D Klingner  
Director  
\_\_\_\_\_  
D S McGurk  
Director

Dated at Newton this 8th day of February 2011.



***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 review for the half-year ended 31 December 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

NT Faulkner  
Partner

Adelaide

8 February 2011

# Consolidated interim income statement for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

		Half - Year Ended 31 December 2010 \$'000	Consolidated Half - Year Ended 31 December 2009 \$'000
	Note		
Revenue		83,775	89,427
Cost of goods sold		<u>(40,456)</u>	<u>(42,628)</u>
<b>Gross profit</b>		43,319	46,799
Other operating income	3	5,048	486
Administrative expenses		(7,520)	(7,716)
Sales and marketing expenses		(16,319)	(14,937)
Engineering expenses		(4,141)	(3,584)
Net financing costs	4	<u>(1,589)</u>	<u>(2,072)</u>
<b>Profit before income tax expense</b>		18,798	18,976
Income tax expense		<u>(4,751)</u>	<u>(5,380)</u>
<b>Profit for the period attributable to equity holders of the parent</b>		<u>14,047</u>	<u>13,596</u>
<b>Earnings per share</b>	6		
Basic earnings per share		8.6 cents	8.3 cents
Diluted earnings per share		8.5 cents	8.2 cents

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 14.

# Consolidated interim statement of comprehensive income for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

	Note	Half - Year Ended 31 December 2010 \$'000	Consolidated Half - Year Ended 31 December 2009 \$'000
<b>Profit for the period</b>		14,047	13,596
<b>Other comprehensive income</b>			
Changes in fair value of cash flow hedges, net of income tax		2,509	933
Exchange differences on translation of foreign operations, net of income tax		<u>(1,725)</u>	<u>(566)</u>
<b>Other comprehensive income for the period, net of income tax</b>		784	367
<b>Total comprehensive income for the period</b>		<u>14,831</u>	<u>13,963</u>

The statement of comprehensive income is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 14.

# Consolidated interim balance sheet as at 31 December 2010

Codan Limited and its Controlled Entities

	Note	31 December 2010 \$'000	Consolidated 30 June 2010 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		13,170	21,745
Trade and other receivables		15,194	12,474
Inventories		22,395	25,114
Current tax assets		-	55
Other		3,079	1,813
<b>TOTAL CURRENT ASSETS</b>		<b>53,838</b>	<b>61,201</b>
<b>NON-CURRENT ASSETS</b>			
Other financial assets		-	50
Property, plant and equipment		20,459	21,134
Product development		21,411	18,956
Intangible assets		60,912	61,897
Deferred tax assets		-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>102,782</b>	<b>102,037</b>
<b>TOTAL ASSETS</b>		<b>156,620</b>	<b>163,238</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		17,574	27,389
Other liabilities		-	1,065
Loans and borrowings		-	-
Current tax payable		3,451	7,503
Provisions		5,387	5,133
<b>TOTAL CURRENT LIABILITIES</b>		<b>26,412</b>	<b>41,090</b>
<b>NON-CURRENT LIABILITIES</b>			
Loans and borrowings		50,977	52,098
Deferred tax liabilities		3,057	1,553
Provisions		3,345	3,451
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>57,379</b>	<b>57,102</b>
<b>TOTAL LIABILITIES</b>		<b>83,791</b>	<b>98,192</b>
<b>NET ASSETS</b>		<b>72,829</b>	<b>65,046</b>
<b>EQUITY</b>			
Share capital		25,667	25,328
Reserves		(790)	(1,574)
Retained earnings		47,952	41,292
<b>TOTAL EQUITY</b>		<b>72,829</b>	<b>65,046</b>

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 14.

# Consolidated interim statement of changes in equity for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

For the six months ended 31 December 2010

	Share Capital	Translation Reserve	Consolidated Hedging Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2010	25,328	(1,319)	(255)	41,292	65,046
Change in fair value of cash flow hedges	-	-	2,509	-	2,509
Exchange differences on translation of foreign operations	-	(1,725)	-	-	(1,725)
Transfer from reserves	-	-	-	-	-
Performance rights issue	339	-	-	-	339
Profit for the period	-	-	-	14,047	14,047
Dividends recognised during the period	-	-	-	(7,387)	(7,387)
Balance at 31 December 2010	25,667	(3,044)	2,254	47,952	72,829

For the six months ended 31 December 2009

	Share Capital	Translation Reserve	Consolidated Hedging Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 July 2009	24,849	(108)	843	38,388	63,972
Change in fair value of cash flow hedges	-	-	933	-	933
Exchange differences on translation of foreign operations	-	(566)	-	-	(566)
Transfer from reserves	-	-	-	-	-
Profit for the period	-	-	-	13,596	13,596
Dividends recognised during the period	-	-	-	(5,745)	(5,745)
Balance at 31 December 2009	24,849	(674)	1,776	46,239	72,190

The statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 14.

# Consolidated interim statement of cash flows for the for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

		Consolidated	
	Note	Half - Year Ended 31 December 2010 \$'000	Half - Year Ended 31 December 2009 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		82,273	89,624
Cash paid to suppliers and employees		<u>(72,513)</u>	<u>(61,465)</u>
		9,760	28,159
Interest received		170	155
Interest paid		(1,573)	(1,720)
Income taxes paid		(7,999)	(1,965)
		<u>358</u>	<u>24,629</u>
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		698	200
Acquisition of property, plant and equipment		(1,727)	(1,344)
Payments for capitalised product development		(3,891)	(3,519)
Payments for intellectual property		(1,377)	(509)
Proceeds from dividends received		527	-
Proceeds from disposal of shares in GroundProbe Pty Ltd		3,795	-
Proceeds from disposal of Codan Broadcast Pty Ltd		727	-
		<u>(1,248)</u>	<u>(5,172)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Repayment of borrowings		-	(11,010)
Dividends paid	5	(7,387)	(5,745)
		<u>(7,387)</u>	<u>(16,755)</u>
<b>Net cash provided by / (used in) financing activities</b>			
<b>Net increase (decrease) in cash held</b>			
		(8,277)	2,702
Cash and cash equivalents at the beginning of the financial year		21,745	13,895
Effect of exchange rate changes on cash held in foreign currencies		(298)	(20)
		<u>13,170</u>	<u>16,577</u>
<b>Cash and cash equivalents at the end of the financial year</b>			

The statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 11 to 14.



# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

---

## NOTE 1: STATEMENT OF ACCOUNTING POLICY

### (a) Reporting entity

Codan Limited (the "company") is a company domiciled in Australia. The consolidated interim financial report of the company for the six months ended 31 December 2010 comprises the company and its subsidiaries (together referred to as the "Group").

### (b) Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available on request from the company's registered office at 81 Graves Street, Newton, South Australia.

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 consolidated interim financial report was authorised for issue by the directors on 8 February 2011.

### (c) Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2010.

### (d) Presentation of financial statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated interim statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated interim statement of comprehensive income. This presentation has been applied in these interim financial statements as of and for the six months period ended 31 December 2010.

### (e) Estimates

The preparation of the consolidated interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2010.

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

## NOTE 2: SEGMENT REPORTING

The Group is comprised of three business segments. The communications equipment segment includes the design, development, manufacture and marketing of communications equipment. The metal detection segment includes the design, development, manufacture and marketing of metal detection equipment. The other business segment includes the manufacture and marketing of printed circuit boards, a specialist electronic component manufacturing business and the manufacture of electronic equipment for the broadcast industry.

	Half - Year Ended 31 December 2010 \$'000	Consolidated Half - Year Ended 31 December 2009 \$'000
<b>Segment revenue</b>		
Communications Products	32,951	38,156
Metal Detection	46,627	44,974
Other	4,197	6,297
	<u>83,775</u>	<u>89,427</u>
<b>Segment result</b>		
Communications Products	4,267	8,690
Metal Detection	17,689	18,436
Other	16	342
	<u>21,972</u>	<u>27,468</u>
Unallocated revenues and expenses	<u>(3,174)</u>	<u>(8,492)</u>
<b>Profit for the period before income tax expense</b>	<u>18,798</u>	<u>18,976</u>

## NOTE 3: OTHER OPERATING INCOME

Other income for the six months ended 31 December 2010 includes the proceeds from sale of a minority interest in GroundProbe Pty Ltd totalling \$3,795,186, a dividend of \$526,734 also received from GroundProbe Pty Ltd and a gain from the disposal of Codan Broadcast Products Pty Ltd of \$754,889.

## NOTE 4: NET FINANCING COSTS

Net financing costs:		
Interest income	(170)	(155)
Net foreign exchange (gain) / loss	186	507
Interest expense	1,573	1,720
	<u>1,589</u>	<u>2,072</u>

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

## NOTE 5: DIVIDENDS

	Half - Year Ended 31 December 2010 \$'000	Half - Year Ended 31 December 2009 \$'000
Codan Limited has provided or paid for dividends as follows:		
- final fully franked dividend of 4.5 cent per share on ordinary shares paid on 1 October 2010	7,387	
- final fully franked dividend of 3.5 cent per share on ordinary shares paid on 1 October 2009		5,745

### Subsequent Events

Since the end of the half year, the directors declared an interim fully franked dividend of 4 cents per share payable on 1 April 2011. The financial impact of this interim dividend (\$6,565,839.20) has not been brought to account in the Group financial statements for the half year ended 31 December 2010 and will be recognised in subsequent financial reports.

## NOTE 6: EARNINGS PER SHARE

The calculation of basic earnings per share (EPS) for the six months ended 31 December 2010 was based on the profit attributable to ordinary shareholders of \$14,047,000 (six months ended 31 December 2009 \$13,596,000) and the issued capital of the company outstanding during the period. The weighted average number of shares outstanding was 164,145,980 for the half year period ending 31 December 2009 and 31 December 2010 respectively.

Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of 1,756,237 performance rights granted to employees.

## NOTE 7: CAPITAL COMMITMENTS

The aggregate amount of contracts for capital expenditure on property, plant and equipment	182	655
--	-----	-----

# Condensed notes to the consolidated interim financial statements for the half year ended 31 December 2010

Codan Limited and its Controlled Entities

	Consolidated
Half - Year Ended 31 December 2010 \$'000	Year Ended 30 June 2010 \$'000

---

## NOTE 8: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

## NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

Other than the matters already disclosed in these financial statements, there has not arisen in the interval between the end of the financial period 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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## NOTE 10: RELATED PARTIES

Arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2010 annual financial report.

With the retirement of Mr M K Heard as Managing Director and Chief Executive Officer in November 2010 the performance rights held by Mr M K Heard have vested in the half year period ended 31 December 2010. The Board will now commence a process to either acquire shares or issue new shares in order to satisfy its obligations under the Performance Rights Plan.

A six month part time consultancy contract has been entered into with Mr M K Heard on normal commercial terms.

## NOTE 11: NET TANGIBLE LIABILITY PER SHARE

	Consolidated
Half - Year Ended 31 December 2010	Year Ended 30 June 2010
Net tangible liability per share	3.9 cents                      8.6 cents

## NOTE 12: SALE OF SUBSIDIARY

As at 31 August 2010, Codan Limited disposed of its subsidiary Codan Broadcast Products Pty Ltd.

## Directors' declaration

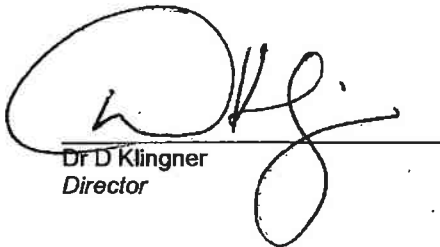
Codan Limited and controlled entities

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

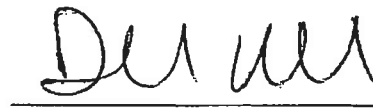
- (a) the financial statements and notes, set out on pages 6 to 14, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2010 and of its performance, as represented by the results of its operations and cash flows, for the half year ended on that date; and
  - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Newton this 8th day of February 2011.

Signed in accordance with a resolution of the directors:



Dr D Klingner  
Director



D S McGurk  
Director



## **Independent auditor's review report to the members of Codan Limited**

### **Report on the financial report**

We have reviewed the accompanying half year financial report of Codan Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2010, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year period ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half year period.

#### *Directors' responsibility for the interim financial report*

The directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Codan Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Codan Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half year period ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

The KPMG logo, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink, appearing to read 'NT Faulkner'.

NT Faulkner  
*Partner*

Adelaide

8 February 2011