

Calliden Group Limited

ACN 061 215 601

Consolidated Interim Financial Report – 30 June 2006



**CALLIDEN GROUP LIMITED
CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 June 2006**

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DIRECTORS' REPORT

The Directors present their report together with the condensed consolidated interim financial report of the Group, being the Company and its controlled entities, for the half year ended 30 June 2006 and the auditors' review report thereon.

1. Directors

The following Directors held office during the half year and up to the date of this report:

DIRECTOR	DATE OF APPOINTMENT	SPECIAL RESPONSIBILITIES
RJ Hill	19 April 2000	Chairman Member of Risk Management Committee
IK Crow	19 March 1996	Chairman of Risk Management Committee Member of Audit Committee
MW Loomes	24 October 2000	Chairman of Audit Committee Member of Risk Management Committee
JT Lowenstein	19 April 2000	Member of Audit Committee Member of Risk Management Committee
NG Kirk	1 January 2005	Managing Director and Chief Executive Officer Member of Risk Management Committee

2. Review of Operations

The result for the Group for the first half of 2006 is a loss of \$1.1m (30 June 2005: \$2.6m loss). The result is ahead of our expectations with good underlying performance in general insurance, some one-off gains in the run-off and stronger than planned investment returns.

We remain committed to a disciplined underwriting approach, particularly in the light of softening market premiums. In spite of these tough market conditions we wrote premiums of \$19.2m for the six months to June (30 June 2005: \$1.8m). Net earned premiums remain slightly below target.

The reinsurance run-off has continued to progress successfully. The liquidation of our Monegasque subsidiary, Monde Re, on 2 August 2006 is an important milestone in the orderly finalisation of our run-off portfolio.

During the six months we reviewed our investment policy and elected to maintain our conservative approach restricting our investment classes to cash and fixed interest securities. This approach has ensured that we protect our capital base whilst building up our general insurance business.

DIRECTORS' REPORT (Continued)

2. Review of Operations (Continued)

Both APRA licensed entities within the Group remain strongly capitalized. We continually review our capital management options for the Group.

Calliden Group Limited repurchased 50,000 shares at \$0.36 on 16 August 2006 in accordance with its on market share buy back policy announced in March 2006.

3. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 17 and forms part of the Directors' report for the half year ended 30 June 2006.

4. Rounding Off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the condensed consolidated interim financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of Directors

A handwritten signature in black ink, appearing to read 'RJ Hill'.

RJ Hill

Chairman

Dated at Sydney this 24th day of August 2006

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE HALF YEAR ENDED 30 June 2006**

	Note	30 June 2006 \$'000	30 June 2005 \$'000
GROSS WRITTEN PREMIUM	2	19,156	1,797
Gross premium revenue	2	8,865	201
Reinsurance premium expense		(4,773)	(147)
Net premium revenue		4,092	54
Gross claims expense		(3,425)	(406)
Reinsurance recovery income	2	2,691	72
Net claims incurred		(734)	(334)
Other expenses from ordinary activities:			
Net acquisition income / (expenses)	3	515	(4)
Administration expenses		(7,850)	(4,868)
Changes in fair value of investments	3	49	17
		(7,286)	(4,855)
UNDERWRITING LOSS		(3,928)	(5,135)
Investment income	2	2,809	2,602
Investment expenses		-	(29)
Net investment income		2,809	2,573
LOSS BEFORE INCOME TAX		(1,119)	(2,562)
Income tax expense	7	-	-
NET LOSS ATTRIBUTABLE TO MEMBERS OF THE COMPANY		(1,119)	(2,562)
		Cents	Cents
Basic loss per ordinary share	5	(0.56)	(1.27)
Diluted loss per ordinary share	5	(0.56)	(1.27)

The Income Statement should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET
AS AT 30 JUNE 2006**

	Note	30 June 2006 \$'000	31 Dec 2005 \$'000
Current Assets			
Cash and cash equivalents		1,770	2,704
Financial assets		93,206	90,002
Receivables		12,043	7,187
Reinsurance recoveries		1,497	775
Deferred reinsurance expense		13,161	5,391
Deferred acquisition costs		3,508	1,801
Other assets		738	447
TOTAL CURRENT ASSETS		125,923	108,307
Non-Current Assets			
Reinsurance recoveries		1,520	502
Property and equipment		757	631
Intangible assets		707	510
TOTAL NON-CURRENT ASSETS		2,984	1,643
TOTAL ASSETS		128,907	109,950
Current Liabilities			
Payables		11,629	5,424
Unearned premium liability		19,045	8,755
Unearned reinsurance commissions		4,247	2,279
Outstanding claims	8	6,540	5,998
Employee entitlements		282	204
TOTAL CURRENT LIABILITIES		41,743	22,660
Non-Current Liabilities			
Outstanding claims	8	7,149	6,193
Employee entitlements		126	89
TOTAL NON-CURRENT LIABILITIES		7,275	6,282
TOTAL LIABILITIES		49,018	28,942
NET ASSETS		79,889	81,008
Equity			
Issued capital		86,735	86,735
Accumulated losses		(6,846)	(5,727)
TOTAL EQUITY		79,889	81,008

The Balance Sheet should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2006**

	Issued Capital \$'000	Accumulated Losses \$'000	Total \$'000
For the half year ended 30 June 2006:			
Balance at the beginning of the period	86,735	(5,727)	81,008
Net loss for the period	-	(1,119)	(1,119)
	86,735	(6,846)	79,889
For the half year ended 30 June 2005:			
Balance at the beginning of the period	86,735	-	86,735
Net loss for the period	-	(2,562)	(2,562)
	86,735	(2,562)	84,173

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 30 JUNE 2006**

	30 June 2006 \$'000	30 June 2005 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums received	14,299	320
Reinsurance recoveries received	951	6
Interest received	2,241	4,149
Goods and services tax credits received	-	363
Reinsurance commissions received	4,189	-
Outwards reinsurance premium paid	(7,757)	(316)
Claims and net commutations paid	(1,927)	(1,603)
Acquisition costs paid	(3,413)	(34)
General and administration expenses paid	(6,411)	(8,230)
Net cash inflow / (outflow) from operating activities	2,172	(5,345)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from (purchase) / sale of investments	(2,587)	5,061
Software development costs	(327)	(420)
Payments for purchase of plant and equipment	(192)	(55)
Net cash (outflow) / inflow from investing activities	(3,106)	4,586
Net decrease in cash and cash equivalents	(934)	(759)
Cash and cash equivalents at the beginning of the financial period	2,704	3,151
Effect of exchange rates on opening cash and cash equivalents	-	(52)
CASH AND CASH EQUIVALENTS AT 30 JUNE	1,770	2,340

The Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 June 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Calliden Group Limited (the “Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Group for the half year ended 30 June 2006 (the “interim financial report”) comprises the Company and its controlled entities (together referred to as the “Group”).

The interim financial report was authorised for issue by the directors on 24 August 2006.

1.1 Statement of Compliance

The condensed consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting*, the Corporations Act 2001 and the Australian Stock Exchange Listing Rules.

This 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 for the year ended 31 December 2005 and any public announcements made by the Group during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

1.2 Basis of Preparation

The interim financial report is presented in Australian dollars.

All accounting policies have been applied consistently to all periods presented and throughout the Group, and the accounting policies have not changed since the previous annual financial year. Certain items have been reclassified from the prior half year’s financial report to conform to the current period’s presentation.

The interim financial report is prepared on an historical cost basis except for financial assets that are stated at their fair value and outstanding claims and related reinsurance recoveries that are discounted to present value using a risk free rate.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 (updated by CO 05/641 effective 28 July 2005) and in accordance with that Class Order, amounts in the interim financial report have been rounded off to the nearest one thousand dollars, unless otherwise stated.

**NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 30 JUNE 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.2 Basis of Preparation (Continued)

Critical accounting judgements and estimates

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and will be recognised on occurrence. These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A detailed description of the assumptions used in the condensed consolidated interim financial statements are disclosed in the most recent annual financial statements.

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2006

Consolidated
30 June **30 June**
2006 **2005**
\$'000 **\$'000**

NOTE 2 REVENUE

Gross written premium	19,156	1,797
Movement in unearned premium	(10,291)	(1,596)
Gross premium revenue	<u>8,865</u>	201
Reinsurance and other recoveries income	2,691	72
Investment income	<u>2,809</u>	2,602
	<u><u>14,365</u></u>	<u><u>2,875</u></u>

NOTE 3 LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging the following items:

Acquisition expenses	1,706	29
Exchange commissions income	(2,221)	(25)
Net acquisition (income) / expenses	<u>(515)</u>	4
Employee benefits expenses:		
Salaries and bonuses	3,305	2,456
Increase in liability for long service leave	38	31
Superannuation contributions	260	178
Compulsory statutory charges and taxes	227	160
Total employee benefits expense	<u>3,830</u>	2,825
Depreciation of assets	66	29
Amortisation of intangible assets	130	-
Office lease expense	123	196
Changes in fair value of investments	(49)	(17)
Impairment / (impairment reversal) of receivables	236	(40)
Net foreign currency translation loss	<u>13</u>	1

Run-off costs of \$409,000 (30 June 2005: \$760,100) have been charged in the current half year to the run-off provision which is included within the liability for outstanding claims.

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2006

NOTE 4 DIVIDENDS

No dividends were paid or declared during the current financial period.

The balance of the franking account at 30 June 2006 is \$62,910,575 (31 December 2005 : \$62,910,575). The franking account credits will only be distributed by way of dividends out of future profits.

NOTE 5 EARNINGS PER SHARE

The calculation of both basic and diluted loss per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of \$1,119,491 (30 June 2005: loss of \$2,561,700) and a weighted average number of ordinary shares outstanding during the period ended 30 June 2006 of 201,002,339 (30 June 2005: 201,002,339).

	Consolidated	
	30 June 2006 Cents	30 June 2005 Cents
Basic loss per ordinary share	(0.56)	(1.27)
Diluted loss per ordinary share	<u>(0.56)</u>	<u>(1.27)</u>

NOTE 6 INVESTMENTS IN CONTROLLED ENTITIES

The book value of Monégasque de Réassurances s.a.m. (Monde Re), \$25,294,707, represents its net assets at the end of the financial period. Monde Re was liquidated on 2 August 2006 .

	Consolidated	
	30 June 2006 \$'000	30 June 2005 \$'000

NOTE 7 INCOME TAX EXPENSE

(a) Reconciliation between net loss before tax and income tax expense

Net loss before tax	<u>(1,119)</u>	<u>(2,562)</u>
Tax credit at the standard tax rate of 30% (2005 : 30%)	<u>(336)</u>	<u>(769)</u>
Increase/(decrease) in income tax expense due to:		
Rate differential on overseas income	54	9
Net permanent differences	36	4
Tax losses not recognised	246	756
Income tax expense attributable to loss	<u>-</u>	<u>-</u>

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2006

NOTE 7 INCOME TAX EXPENSE (Continued)

	30 June 2006 \$'000	30 June 2005 \$'000
Income tax expense attributable to loss:		
Current Income Tax Liability	-	-
Income Tax attributable to current period	-	-
Total income tax expense / (credit)	<u>-</u>	<u>-</u>

(b) Deferred tax asset not taken to account

A deferred tax asset shall be recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. No deferred tax asset has been recognised for unused tax losses and other temporary differences at balance date.

	30 June 2006 \$'000	31 Dec 2005 \$'000
Potential benefit of tax losses and other temporary differences carried forward	74,411	74,765

In addition, a further \$60,207,348 (31 December 2005 : \$57,504,823) of overseas and Australian foreign losses may be accessible. These would only be available through run-off activities and/or ventures in overseas jurisdictions.

The liquidation of Monde Re subsequent to 30 June 2006 will result in changes to the tax loss position. This is currently under review.

Potential future income tax benefits for tax losses and other temporary differences will only be obtained if:

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit to be realised in accordance with Division 165-166 of the Income Tax Assessment Act 1997;
- (ii) the Group continues to comply with the conditions for deductibility imposed by the law; specifically the continuity of ownership and continuity of business tests, and
- (iii) changes in tax legislation do not adversely affect the Group in realising the benefit.

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2006

	Consolidated	
	30 June	31 Dec
	2006	2005
	\$'000	\$'000

NOTE 8 OUTSTANDING CLAIMS

Gross Outstanding Claims

Current	6,540	5,998
Non-current	7,149	6,193
	13,689	12,191
Case estimates	4,291	5,150
IBNR	6,791	4,149
Central estimate	11,082	9,299
Claims handling expenses	1,901	2,126
Risk margin	1,754	1,412
	14,737	12,837
Discount to present value	(1,048)	(646)
Gross outstanding claims liability	13,689	12,191

NOTE 9 SEGMENT INFORMATION

Primary reporting – business segments

The Group comprises the following main business segments, both of which are continuing operations:

- 1 General Insurance Business
- 2 Run-off Business - Managed run-off of international reinsurance portfolio.

	General Insurance Business	Run-Off Business	Total
	\$'000	\$'000	\$'000
2006			
For the half year ended 30 June:			
Total segment revenue	13,016	1,349	14,365
Segment result	(1,487)	368	(1,119)
Net loss			(1,119)

NOTES TO AND FORMING PART OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 30 JUNE 2006

NOTE 9 SEGMENT INFORMATION (Continued)

	General Insurance Business \$'000	Run-Off Business \$'000	Total \$'000
2005			
For the half year ended 30 June:			
Total segment revenue	1,026	1,849	2,875
Segment result	<u>(4,053)</u>	<u>1,491</u>	<u>(2,562)</u>
Net loss			<u>(2,562)</u>

NOTE 10 CONTINGENT LIABILITIES

In relation to run-off, disputes over the proper construction of reinsurance contracts can occur. A small number of the remaining liabilities of the Group are in dispute and may require arbitration or litigation before they can be resolved. The Directors believe that based on information currently available, existing provisions are adequate to meet potential exposure to existing claims and unexpired risk.

NOTE 11 EVENTS SUBSEQUENT TO INTERIM BALANCE DATE

Monde Re held an extraordinary General Meeting on 2 August 2006 where it was declared that the liquidation process was complete. This declaration has been lodged with the Monegasque authorities who are in the process of issuing a certificate of deregistration. There are no material changes to the financial condition of the Group as a result of the liquidation.

Calliden Group Limited has purchased all of the shares in Dawes Underwriting Australia Pty. Ltd. on 23 August 2006.

Calliden Group Limited repurchased 50,000 shares at \$0.36 on 16 August 2006 in accordance with its on market share buy back policy announced in March 2006.

DIRECTORS' DECLARATION

In the opinion of the Directors of Calliden Group Limited ("the Company"):

- (a) the financial statements and notes, set out on pages 4 to 14, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2006 and of its performance, as represented by the results of its operations and its 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 Sydney this 24th day of August 2006

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'RJ Hill'.

RJ Hill
Chairman



INDEPENDENT REVIEW REPORT TO THE MEMBERS OF CALLIDEN GROUP LIMITED

Scope

We have reviewed the financial report of Calliden Group Limited (“the Company”) for the half year ended 30 June 2006, consisting of the condensed consolidated interim income statement, balance sheet, statement of changes in equity, cash flow statement, accompanying notes 1 to 11 and the directors’ declaration. The financial report includes the consolidated financial statements of the Group comprising the Company and the entities it controlled at the end of the half year or from time to time during the half year. The Company’s directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the Group’s financial position, and performance as represented by the results of its operations and its cash flows and in order for the Company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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 Calliden Group Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group’s financial position as at 30 June 2006 and of its performance 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) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

B P J Greig
Partner

Sydney, 24 August 2006



**LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF
CALLIDEN GROUP LIMITED**

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

KPMG

A handwritten signature in black ink, appearing to read 'B P J Greig'.

B P J Greig
Partner

Sydney
24 August 2006



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