

Colorpak Limited  
Half-Year Condensed Financial Report  
31 December 2014

# Colorpak Limited

## Directors' Report

Your directors submit their report for the half-year ended 31 December 2014.

### Directors

The names of the company's directors in office during the half-year and until the date of this report are as below.

Geoff Willis (Non-executive Chairman)

Alex Commins (Managing Director)

Bronwyn Constance

David Heaney

Ian Wightwick

Directors were in office for this entire period unless otherwise stated.

## Operating and Financial Review

### Financial Performance

Colorpak's six months to 31 December 2014 produced revenues from sale of goods and services of \$84,181,000, 2.0% up on the corresponding prior comparable period ("pcp") of \$82,560,000. The company's reported Net Profit After Tax (NPAT) was a profit of \$1,645,000 (2013: profit of \$1,226,000).

Last year the reported result was adjusted by adding back restructuring costs of \$2,039,000 to determine the underlying result. It was noted at that time that the underlying result did, however, include one off benefits of \$1,399,000 arising from the termination of building leases and reassessment of make-good provisions. Taking both these matters into account the NPBT for 2014 exceeded the prior year by \$242,000. The following table provides these comparisons:

	2014		2013	
	(\$000s)		(\$000's)	
Revenues from sale of goods	<u>84,181</u>		<u>82,560</u>	
	<b>NPBT<sup>(1)</sup></b>	<b>NPAT</b>	<b>NPBT<sup>(1)</sup></b>	<b>NPAT</b>
Reported result	2,616	1,645	1,734	1,226
Restructuring costs <sup>(2)</sup>	-	-	2,039	1,427
Adjustment for premises benefits <sup>(3)</sup>	-	-	(1,399)	(979)
<b>Adjusted Underlying Result</b>	<b>2,616</b>	<b>1,645</b>	<b>2,374</b>	<b>1,674</b>

#### Notes:

1. NPBT refers to Net Profit Before Tax.
2. The reported result for 2013 includes costs considered to be of a one-off nature, having arisen as a result of the restructure of the company's operations that has seen the major part of the progressive closure of the Mt Waverley factory and the merger of its operations into the Braeside site. An analysis of these costs is set-out in note 4 to the financial statements.
3. The reported result for 2013 includes a benefit from one-off lease closure and make-good adjustments arising from the termination of building leases and reassessment of make-good provisions.
4. The numbers in the above table have been reviewed by the auditors.

EPS has increased to 2.00 cents per share, ahead of the prior year's 1.50 cents on the reported result.

# Colorpak Limited

## Directors' Report

### **Cash Flow and Debt**

Cash generation from operations for the half-year was an inflow of \$3,587,000, down \$328,000 on the pcp.

The company undertook capital expenditure, net of proceeds on disposal of assets, of \$634,000 for the half-year, with the total for 2015 expected to be around \$1,200,000. Cash from operations for the half included a net increase in core working capital of \$633,000.

Debt, net of cash at bank, reduced by \$2,947,000 to \$36,423,000 since June 2014 as a result of the positive operating cash generation supported by low capital expenditure and the underwritten reinvestment of the company's final dividend in October 2014. The company remains relatively conservatively geared with gearing of 38.8% (debt / debt + equity) and maintains adequate cash reserves and undrawn bank credit limits to meet its expected working capital and capital expenditure requirements for the foreseeable future.

During the reporting period, the company chose to review its financial facilities. This review resulted in the selection of National Australia Bank, supported by BNZ in New Zealand, as the company's bankers. Renewed facility agreements with each of National Australia Bank and BNZ were implemented in December 2014, with the facilities extended until January 2017.

### **Operating Activities**

#### **Challenging conditions**

Over the past couple of years, the folding cartonboard packaging industry has been undergoing a substantial change. There has been a sustained buy-side pressure being applied by supermarkets under the banner "cost-down" which is ultimately passed through to primary packaging manufacturers as demands for continuous cost reductions. Furthermore, another supermarket strategy has resulted in the demise of many specialty brands and the rise of generics, all leading to a contraction in margins for manufacturers. Finally where local manufacturers cannot meet cost targets, a greater proportion of products have been sourced offshore. These factors have created market uncertainty, affected demand and have reduced margins. With a falling local currency forecast to prevail in the medium term, we remain optimistic that some pressure may be removed from the supply chain as the threat of off-shoring products and or customers should ease. Against this market backdrop it is encouraging to report that sales were up by 2% versus the prior corresponding period.

The first half of 2015 continued to be heavily influenced by the integration of the two Victorian sites into Braeside. Substantial progress has been made in relation to reduction of waste, spoilage and better process flow, however the targets we had set for ourselves are proving slower to achieve than had been envisaged. The Braeside workforce has been faced with very substantial work process and practices changes concurrent with a wage freeze, and this has proved to be a big ask for staff.

Maintaining customer delivery performance is always central to the company's approach however our commitment to maintain excellence has resulted in the full margins not flowing through to the bottom line. Orders were transferred to NSW and to sub-contractors, with attendant freight and disruption costs. Some of the other consequential effects of not achieving our targets in the first half is reflected in higher labour costs, including overtime, as well as other manufacturing costs and the use of outside sub-contractors as we maintained a without-compromise service model to our customers. Whilst some of the expected savings have been achieved, there has been a major factor in the delayed productivity improvements being achieved.

# Colorpak Limited

## Directors' Report

The Auckland site has suffered from softness in volume compared to the pcg as the beverage sector, to which the site has a large exposure, is well down on the comparable period.

Brandpack continues to perform very well and provides a unique industry advantage for early customer engagement at the inception of a new product with new and/or potential customers. Brandpack successfully launched the "Imagine" marketing campaign to showcase the group's capability.

The group's safety record continues to be in a strong position. At Regents Park, the team has set a strong benchmark at 1,768 Lost Time Injury days free at the end of December 2014.

With the Company's debt position at 30 June 2014 peaking higher than expected, and the economic headwinds faced, staff were asked to work with the Company with a 12 month wage freeze. Whilst the option was understandably not popular, a common sense outcome ultimately prevailed across the group. The next EBA is due for renegotiation in Victoria by 30 June 2015.

### Meeting the challenges

Colorpak has been well aware of the changing market, maintaining close contact with all key players in the supply chain, and has taken a leading position utilising the company's unique strengths to assist customers with innovative packaging solutions via early engagement with material selection, construction and graphic.

With the reduced margins, and the highly competitive environment prevailing, the company has responded by focusing on a wide range of cost reduction initiatives, including rationalising manufacturing sites to Braeside in Victoria, Regents Park in NSW and in Auckland, NZ, together with reducing workforce numbers and taking a number of other cost reduction actions.

The Company has always responded rapidly to changes it sees in the marketplace. Since taking on the CHH acquisition in March 2011, the team has closed three manufacturing sites, creating two super sites, one in each of Melbourne and Sydney. In response to commercially unsustainable work forgone, the FTE headcount has reduced from 820 to 623. Significant savings have been delivered in raw material pricing against a backdrop of withdrawal of local board supply in the Australian market and the associated disruptions caused by Amcor's Petrie mill closure in December 2013. The company has continued to make strategic investments in world class technologies, including digital solutions, where the productivity benefits meet or surpass our return criteria whilst, carefully managing the Company's gearing.

Colorpak has long been the reputational leader of the sector. An experienced management team of industry experts and a stable workforce has ensured that sound decisions are made and executed in a swift manner. The team will not side step tough decisions.

### Achievements

Although the folding carton market in general remains very competitive, the sales team has delivered some important customer wins to partially offset other market movements. These include the launch of a new 2.5 Litre paper cup currently in use for the "frozen to oven" chicken market. The paper cup division is performing very well and with strong demand for premium and private label ice-cream driven by strong marketing initiatives from customers. This year did not see a low cup manufacturing season during winter.

# Colorpak Limited

## Directors' Report

### Forward looking

With recent industry developments seeing the rise of private label and generic brands, the team have been pro-active with potential and existing customers to provide innovations to their brands.

In October 2014 the Company with the unique offerings provided by our Brandpack division partnered and assisted with the launch into Australia of the SFC brand of frozen chicken to retail. SFC had a well established business domiciled in the UK and our team helped them to establish other supply chain initiatives in a partnership approach to get new product in a raft of different packaging formats swiftly to market. The process continues today, as we help them with product development and expansion into additional markets with more retailers and in other markets beyond Australia.

### Cost savings

The company has identified major savings through the rationalisation of plants and has been systematically undertaking this work over the past three years.

The Company continues to hold the view that substantial savings will flow from the Victorian rationalisation, although some of these savings will take longer to achieve than originally anticipated.

### Industry rationalisation

We have repeatedly observed the need and logic for further industry rationalization, and the company monitors all possible options in this regard. We remain alert to opportunities that will augment that position, or enable greater leverage and "win-win" benefits with our customers.

### Shareholder value

Over a sustained period of over ten years as a listed entity the management and board has endeavoured to position the business as the play maker, the innovator, the industry leader. Solid returns and a strong foundation have been the result. Focus remains highly tuned to our environment, which is dynamic, in order that we continue to deliver returns to shareholders.

In summary, the team has taken the proactive, tough decisions approach to navigate its way in this ever changing and challenging competitive environment. We have built a unique and sophisticated manufacturing business and will continue to strive and maintain our industry leadership position.

### Dividend

The company has paid a fully franked dividend each six months since listing, lifting the annual dividend from 2.50 cents per share in 2005 to 3.50 cents per share for the 2014 financial year. We have returned 32.75 cps since listing.

The current plan for the 2016 financial year will see a relocation of the company's NZ premises, leading up to expiry of the current lease in August 2016. This move will see annual substantial cash savings in premises costs of approximately \$700,000 pa, although will necessitate increased capital expenditure as well as one off costs associated with the relocation. At this early stage it is also envisaged that the company may require the purchase of some upgraded printing assets. Taking these factors into account, together with the financial outlook for this financial year, the Board has determined that this dividend payout should be reduced and announces a 1.25 cents, fully franked, interim dividend which will be paid on 1 April 2015.

The company will be offering shareholders the opportunity to reinvest their interim dividend back into the company through the acquisition of company shares under the rules of the established dividend reinvestment plan. Any shortfall

## Colorpak Limited Directors' Report

in this dividend reinvestment will be fully underwritten to secure return of 100% of the interim dividend payment, the proceeds of which will be applied toward repayment of debt.

### Asset and Capital Structure

	<b>31 December</b>	30 June
	<b>2014</b>	2014
	<b>\$000</b>	\$000
Debt:		
Interest-bearing loans and borrowings	<b>36,426</b>	39,373
Cash and cash equivalents	<b>(3)</b>	(3)
Net debt	<b>36,423</b>	39,370
Total equity	<b>57,569</b>	55,926
Total capital employed	<b>93,992</b>	95,296
Gearing (debt/debt+equity)	<b>38.8%</b>	41.3%

The group's balance sheet remains strong as a consequence of consistent earnings performance and strong cash flows. The group does not have a firm established policy however a long-term gearing range of 25% - 50% is considered appropriate.

### Treasury

A profile of the group's debt finance is as follows:

	<b>31 December</b>	30 June
	<b>2014</b>	2014
	<b>\$000</b>	\$000
Current		
Bank overdraft	<b>1,426</b>	1,188
Trade finance	<b>-</b>	185
	<b>1,426</b>	1,373
Non-current		
Bank loans – secured by debenture security	<b>35,000</b>	38,000
	<b>36,426</b>	39,373

The group had \$14,645,000 in cash and immediately draw-able overdraft and bill facilities at 31 December 2014 (30 June 2014: \$11,662,000). There are no debt repayment requirements on the group's core bill facilities before January 2017, at which time those facilities are expected to be renewed. The group continues to generate steady cash flows and the group's capacity to create business development opportunities continues to improve.

# Colorpak Limited

## Directors' Report

74.1% of the group's drawn debt was fixed at 31 December 2014, with a relatively even reduction in fixed debt exposures across the years 2015 to 2018. The group has a policy of reviewing and adjusting its level of debt that is subject to fixed interest rates periodically in response to prevailing market conditions.

### **Investments for Future Performance**

Capital expenditures in 2015 are expected to be around \$1,200,000. Over the following few years, capital investment is expected to align fairly closely with the annual depreciation charge. The relocation of the New Zealand premises towards the end of the 2016 financial year will necessitate increased capital expenditure associated with the relocation. At this early stage it is also envisaged that the company may require the purchase of some upgraded printing assets.

### **Business Strategies and Prospects for Future Financial Performance**

The material business risks faced that may have an effect on the financial prospects of the group include:

- fluctuations in demand volumes;
- Australian businesses moving their manufacturing operations offshore;
- increased competition;
- technological change;
- changes to alternate packaging materials;
- the occurrence of force majeure events by significant suppliers;
- increasing costs of operations, including labour costs;
- the availability of debt finance at economic rates; and
- changed operating, market or regulatory environments as a result of climate change.

The above list does not necessarily represent an exhaustive list and it may be subject to change based on underlying market events.

The group's business strategy is to be the premier quality manufacturer and solution provider to packaging users in the Australian and New Zealand markets. Industry rationalisation is likely to be an important feature of the industry in an environment that is flat and facing import pressure from regional markets, and the drive by our customers for lower input costs in the face of mounting pressures on their businesses to remain viable.

The Financial Performance section of this report provides commentary on the Company's results for the first half, with the underlying NPBT increasing on pcp by \$242,000, although falling short of expectations, in part driven by slower than expected achievement of the benefits of the Victorian rationalisation.

Financial performance in the first half has not gone to expectations, with action already underway to improve the factory shortcomings that have now become evident at the Braeside facility.

Both Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) and NPAT are still expected to be marginally above last year reported EBITDA and NPAT (where goodwill impairment is eliminated for these purposes). This outlook reflects the impact of the market factors and the delayed improvements to the company's costs structure described earlier in this report.

We have repeatedly observed the need for further industry rationalization, and the company monitors all possible options in this regard.

### **Rounding**

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

# Colorpak Limited Directors' Report

## **Auditor's Independence Declaration**

We have obtained an independence declaration from our auditors, Ernst & Young, which is attached at page 8 of this report.

This report has been made in accordance with a resolution of directors.



G.L. Willis  
Chairman



A. Commins  
Managing Director

Braeside  
5 March 2015



# Colorpak Limited Directors' Report



Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000 Australia  
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000  
Fax: +61 3 8650 7777  
ey.com/au

## Auditor's Independence Declaration to the Directors of Colorpak Limited

In relation to our review of the financial report of Colorpak Limited for the half-year ended 31 December 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Jacob Gossan  
Partner  
Melbourne  
11 March 2015

Colorpak Limited  
Statement of Comprehensive Income  
for the half-year ended 31 December 2014

	Notes	2014 \$000	2013 \$000
Revenue	4	<b>85,103</b>	83,440
Other income		-	-
Changes in inventories of finished goods and work in progress		<b>480</b>	(184)
Raw materials and consumables used		<b>(38,018)</b>	(36,284)
Employee benefits expense		<b>(27,590)</b>	(27,610)
Depreciation and amortisation		<b>(2,489)</b>	(2,240)
Occupancy costs		<b>(3,419)</b>	(2,252)
Factory operating expense		<b>(7,744)</b>	(7,675)
Other expenses		<b>(2,319)</b>	(2,064)
Profit before tax, restructuring and finance costs		<b>4,004</b>	5,131
Finance costs	4	<b>(1,388)</b>	(1,358)
Profit before income tax and restructuring costs		<b>2,616</b>	3,773
Restructuring costs	4	-	(2,039)
<b>Profit before income tax</b>		<b>2,616</b>	1,734
Income tax expense from continuing operations		<b>(971)</b>	(1,120)
Income tax benefit on restructuring costs		-	612
<b>Total income tax expense</b>		<b>(971)</b>	(508)
<b>Net profit for the period</b>		<b>1,645</b>	1,226
<b>Other comprehensive income</b>			
Items that will be subsequently recycled through profit and loss:			
Cash flow hedges:			
Gain / (loss) taken to equity		<b>(78)</b>	179
Income tax (expense) / benefit on items of other comprehensive income		<b>23</b>	(54)
Foreign currency translation		<b>59</b>	6
<b>Other comprehensive income for the period, net of tax</b>		<b>4</b>	131
<b>Total comprehensive income for the period</b>		<b>1,649</b>	1,357
Earnings per share (cents per share)			
- basic and diluted for profit for the period attributable to ordinary equity holders of the company		<b>2.00</b>	1.50

Colorpak Limited  
Statement of Financial Position as at 31 December 2014

	As at 31 December 2014 \$000	As at 30 June 2014 \$000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	3	3
Trade and other receivables	28,042	26,229
Inventories	25,777	26,010
Income tax receivable	-	28
Other current assets	1,335	1,478
<b>Total Current Assets</b>	<b>55,157</b>	<b>53,748</b>
<b>Non-current Assets</b>		
Property, plant and equipment	41,077	42,937
Goodwill	31,134	31,134
Deferred income tax asset	1,853	2,375
<b>Total Non-current Assets</b>	<b>74,064</b>	<b>76,446</b>
<b>TOTAL ASSETS</b>	<b>129,221</b>	<b>130,194</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	22,762	22,541
Interest-bearing loans and borrowings	1,426	1,373
Provisions	6 7,998	7,672
Derivative financial instruments	104	15
<b>Total Current Liabilities</b>	<b>32,290</b>	<b>31,601</b>
<b>Non-current Liabilities</b>		
Interest-bearing loans and borrowings	35,000	38,000
Provisions	6 3,805	4,098
Derivative financial instruments	557	569
<b>Total Non-current Liabilities</b>	<b>39,362</b>	<b>42,667</b>
<b>TOTAL LIABILITIES</b>	<b>71,652</b>	<b>74,268</b>
<b>NET ASSETS</b>	<b>57,569</b>	<b>55,926</b>
<b>EQUITY</b>		
Contributed equity	40,905	39,484
Retained profits	17,159	16,941
Reserves	(495)	(499)
<b>TOTAL EQUITY</b>	<b>57,569</b>	<b>55,926</b>

Colorpak Limited  
Statement of Cash Flow  
for the half-year ended 31 December 2014

	Notes	2014 \$000 Inflows/(Outflows)	2013 \$000 Inflows/(Outflows)
<b>Cash flows from operating activities</b>			
Receipts from customers		91,813	88,999
Payments to suppliers and employees		(86,464)	(82,748)
Interest received		14	16
Income taxes refund / (paid)		(388)	418
Finance costs		(1,388)	(1,358)
Net cash flows from operating activities (before restructuring and business combination costs)		3,587	5,327
Restructuring and business combination costs		-	(1,412)
<b>Net cash flows (used in) / from operating activities</b>		<b>3,587</b>	<b>3,915</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		4	197
Purchase of property, plant and equipment		(638)	(4,982)
<b>Net cash flows used in investing activities</b>		<b>(634)</b>	<b>(4,785)</b>
<b>Cash flows from financing activities</b>			
Repayment of finance lease principal		(185)	(521)
(Repayment) / proceeds of borrowings		(3,000)	4,181
Proceeds from reinvestment of dividends, net of costs		452	-
Payment of dividends	5	(458)	(1,427)
<b>Net cash flows (used in) / from financing activities</b>		<b>(3,191)</b>	<b>2,233</b>
<b>Net increase in cash and cash equivalents</b>		<b>(238)</b>	<b>1,363</b>
Cash and cash equivalents at beginning of period		(1,185)	(454)
<b>Cash and cash equivalents at end of period</b>	8	<b>(1,423)</b>	<b>909</b>

Colorpak Limited  
Statement of Changes in Equity  
for the half-year ended 31 December 2014

	Attributable to equity holders of the Company				
	Issued capital \$000	Retained earnings \$000	Cash flow hedge reserve \$000	FX translation reserve \$000	Total equity \$000
<b>At 1 July 2014</b>	39,484	16,941	(408)	(91)	55,926
Profit for the period	-	<b>1,645</b>	-	-	<b>1,645</b>
Other comprehensive	-	-	<b>(55)</b>	<b>59</b>	<b>4</b>
Total comprehensive income / (loss) for the period	-	<b>1,645</b>	<b>(55)</b>	<b>59</b>	<b>1,649</b>
Transactions with owners in their capacity as owners:					
Issued capital	<b>1,421</b>	-	-	-	<b>1,421</b>
Equity dividends	-	<b>(1,427)</b>	-	-	<b>(1,427)</b>
<b>At 31 December 2014</b>	<b>40,905</b>	<b>17,159</b>	<b>(463)</b>	<b>(32)</b>	<b>57,569</b>
<b>At 1 July 2013</b>	39,484	32,983	(503)	(108)	71,856
Profit for the period	-	1,226	-	-	1,226
Other comprehensive	-	-	125	6	131
Total comprehensive income / (loss) for the period	-	1,226	125	6	1,357
Transactions with owners in their capacity as owners:					
Equity dividends	-	(1,427)	-	-	(1,427)
<b>At 31 December 2013</b>	<b>39,484</b>	<b>32,782</b>	<b>(378)</b>	<b>(102)</b>	<b>71,786</b>

	Notes	2014	2013
Dividends per share (cents per share)	5	<b>1.75</b>	1.75

# Colorpak Limited

## Notes to the half-year condensed Financial Statements

### 31 December 2014

#### 1. Corporate Information

The condensed financial report of Colorpak Limited (the company) for the half-year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 27 February 2015.

Colorpak Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. Colorpak is a “for-profit” entity.

The nature of the operations and principal activities of the company are described in note 3.

#### 2. Summary of significant accounting policies

##### Basis of preparation

This general purpose condensed financial report has been prepared in accordance with AASB 134 “*Interim Financial Reporting*” and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the company as the full financial report.

It is recommended that the half-year financial report should be read in conjunction with the annual financial report for the year ended 30 June 2014 and considered together with any public announcements made by Colorpak Limited during the half-year ended 31 December 2014 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

##### Changes in accounting policy

The following amending Standards have been adopted from 1 July 2014.

Reference	Title	Application date of standard	Application date for group
AASB 2013-3	Amendments to AASB 136 – <i>Recoverable Amount Disclosures for Non-Financial Assets</i> . AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	1 July 2014

The adoption of this Standard did not have any effect on the financial position or performance of the Group. The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

#### 3. Segment Information

The group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources. The accounting policies used in the preparation of the information used by the CODM are aligned to those which are presented in this report. As there are minimal differences, no further disclosures are deemed necessary.

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

### 3. Segment Information (continued)

The company operates in Australia and New Zealand under a single reportable operating segment. The reporting segment is based on the operating segment which was determined by the similarity of the products produced and sold and/or the services provided, as these are the sources of the group's major risks and have the most effect on the rates of return.

#### Types of products and services

The major product/services from which the group derived revenue during the period was the structural design and production of folding cartons, paper cups and lids, printed leaflets, blister and lidding foils, self-adhesive labels and laminates, point of sale displays and other paperboard packaging products.

#### Accounting policies and inter-segment transactions

The accounting policies used by the group in reporting segments internally are the same as those contained in the prior period.

Segment loans are initially recognised at the consideration received excluding transaction costs. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates.

It is the group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

#### Major customers

The group has a single customer that contributes external revenues in excess of 10% of the group's revenues (being 16%). In 2013 there was one customer above 10%, being 16% of external revenues.

#### Geographic spread

	Australia \$000	New Zealand \$000	Total \$000
<b>2014</b>			
Revenues	<b>73,843</b>	<b>11,260</b>	<b>85,103</b>
Net profit for the period	<b>1,820</b>	<b>(175)</b>	<b>1,645</b>
Total Assets	<b>120,062</b>	<b>9,159</b>	<b>129,221</b>
 2013			
Revenues	72,174	11,266	83,440
Net profit for the period	678	548	1,226
Total Assets	132,407	10,263	142,670

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

2014	2013
\$000	\$000

#### 4. Revenue and Expenses

##### (a) Specific Items

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the company:

##### (i) Revenue

Sale of goods and services	84,181	82,560
Interest from unrelated persons	14	16
Other revenue	908	864
	<u>85,103</u>	<u>83,440</u>

##### (ii) Expenses

##### Finance costs

Interest paid or payable to unrelated persons	1,387	1,273
Finance charges payable under finance leases and hire purchase contracts	1	35
Finance charges on onerous contracts and restructure provisions	-	50
<b>Total finance costs expensed</b>	<u>1,388</u>	<u>1,358</u>

The following costs are recorded on the face of the Statement of Comprehensive Income and have been separately disclosed because they are non-recurring and without separate disclosure, would result in a misleading understanding by the users of the half-year financial statements:

##### Restructuring costs

Redundancies	-	684
Premises provisions	-	520
Moving costs	-	632
Equipment and inventory provisions	-	203
<b>Total restructuring costs</b>	<u>-</u>	<u>2,039</u>

##### (b) Seasonality of Operations

The company experiences only a slight seasonality in relation to demand for its product, with sales in the first half-year typically around 53% of annual sales.



Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

	2014 \$000	2013 \$000
<b>5. Dividends Paid and Proposed</b>		
<b>Equity dividends on ordinary shares:</b>		
<b>(a) Dividends declared and paid during the half-year</b>		
Final franked dividend for financial year 30 June 2014: 1.75 cents (2013: 1.75 cents)	<b>1,427</b>	1,427
<b>(b) Dividends proposed and not yet recognised as a liability</b>		
Interim franked dividend for financial year 30 June 2015: 1.25 cents (2014: 1.75 cents)	<b>1,048</b>	1,427
	<b>2,475</b>	2,854

The company issued 2,339,181 shares at \$0.61 each on 8 October 2014 in settlement of the final franked dividend for the financial year 30 June 2014, comprising 1,587,851 shares to shareholders who participated in the Company's dividend reinvestment plan (DRP) and 751,330 shares to underwriters of the DRP who reinvested the shortfall amount of \$458,000.

**6. Provisions**

	2014 \$000	2013 \$000
<b>Current</b>		
Employee leave benefits	<b>7,339</b>	7,024
Unfavourable leases	<b>659</b>	648
Total current provisions	<b>7,998</b>	7,672
<b>Non-current</b>		
Employee leave benefits	<b>979</b>	968
Unfavourable leases	<b>396</b>	712
Property make-good	<b>2,430</b>	2,418
Total non-current provisions	<b>3,805</b>	4,098

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

## 6. Provisions (continued)

Movements in each class of provision during the financial year, other than provisions related to employee benefits, are set-out below:

	<b>Restructure provision \$000</b>	<b>Unfavourable leases \$000</b>	<b>Property make-good \$000</b>	<b>Premises Settlements \$000</b>	<b>Total \$000</b>
At 1 July 2014	-	1,360	2,418	-	3,778
Additional provisions	-	-	12	-	12
Utilised / released	-	(305)	-	-	(305)
At 31 December 2014	-	1,055	2,430	-	3,485
Current 2014	-	659	-	-	659
Non-current 2014	-	396	2,430	-	2,826
	-	1,055	2,430	-	3,485
At 1 July 2013	3,035	3,784	2,781	-	9,600
Additional provisions	1,156	-	992	-	2,148
Transferred	(2,337)	(1,150)	(677)	4,164	-
Utilised / released	(1,694)	(613)	(469)	(290)	(3,066)
At 31 December 2013	160	2,021	2,627	3,874	8,682
Current 2013	160	973	300	3,874	5,307
Non-current 2013	-	1,048	2,327	-	3,375
	160	2,021	2,627	3,874	8,682

## 7. Cash Flow Hedge Reserve

The company has entered into interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps which are in place cover approximately 74% of the drawn-down debt and are timed to expire at selected dates over the next 3½ years, with the earliest expiry being August 2015. The fixed interest rates range between 3.3% and 4.8% and the comparable variable rate based on the 90 day bank bill rate at balance date was 2.82% (June 2014: 2.71%). These interest rate swaps have been designated into cash flow hedges.

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities;
- Level 2 Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable);
- Level 3 Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable).

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

## 7. Cash Flow Hedge Reserve (continued)

The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including interest rate curves and forward rate curves. As at 31 December 2014, the marked-to-market value of derivative liability positions is net of a debit valuation adjustment attributable to derivative counterparty default risk. For these financial instruments, significant inputs into models are market observable and are included within Level 2. No transfers between the levels have occurred during the period.

## 8. Reconciliation of Cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprised the following at 31 December:

	<b>2014</b> <b>\$000</b>	2013 \$000
Cash on hand	3	3
Cash at bank / (Bank overdraft)	<b>(1,426)</b>	906
	<b>(1,423)</b>	909

## 9. Expenditure Commitments

	<b>2014</b> <b>\$000</b>	2013 \$000
Estimated capital expenditure contracted for at reporting date, but not provided for:	703	765

## 10. Contingent Assets and Liabilities

On 4 February 2014 the company received a letter demanding \$807,000 from the liquidators of one of the company's former customers, alleging that cash receipts from the relevant customer were voidable unfair preferences. The company rejected this claim and on 9 December 2014 the liquidator commenced court proceedings claiming a revised amount of \$619,000. The company considers that \$246,000 of this claim could not be an unfair preference as the amounts were pre-payments and no debtor / creditor relationship existed. The company further believes that it has a complete defence in regard to the balance claimed, being \$373,000, and will vigorously defend the court proceedings initiated by the liquidators.

Apart from the above letter, since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2014

**11. Events after the Balance Sheet Date**

Since 31 December 2014 the following events have occurred:

- the directors have declared an interim ordinary dividend of 1.25 cents per share (fully franked) to be paid on 1 April 2015. The total value of this dividend is \$1,048,000. The company will be offering shareholders the opportunity to reinvest their interim dividend back into the company through the acquisition of company shares under the rules of the established dividend reinvestment plan. Any shortfall in this dividend reinvestment will be fully underwritten to secure return of 100% of the interim dividend payment, the proceeds of which will be applied toward repayment of debt.

The financial effect of the dividend have not been brought to account for the half-year ended 31 December 2014 and will be recognised in the subsequent financial period.

# Colorpak Limited

## Director's Declaration

In accordance with a resolution of the directors of Colorpak Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 31 December 2014 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) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



G.L. Willis  
Chairman



A. Commins  
Managing Director

Braeside

5 March 2015

## Independent Review Report to members of Colorpak Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Colorpak Limited, which comprises the condensed statement of financial position as at 31 December 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year 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 controls as the directors determine are 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Colorpak Limited and the entities it controlled during the half-year, 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.

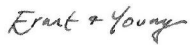
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

## 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 Colorpak Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Jacob Gossan  
Partner  
Melbourne  
11 March 2015