

Colorpak Limited  
Half-Year Condensed Financial Report  
31 December 2006

# Colorpak Limited

## Director's Report

Your directors submit their report for the half-year ended 31 December 2006.

### **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)

David Heaney

Tony Dynon

Paul Commins

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

### **Review and Results of Operations**

#### **Financial Performance**

Colorpak's six months to 31 December 2006 produced revenues from sale of goods and services of \$34.9 million, broadly in line with the corresponding prior comparable period ("pcp") of \$35.1 million. Growth has been evident in much of the retained customer base although in excess of \$0.9 million in revenues have been lost due to:

- an important long term customer having moved its operations offshore in the first part of calendar 2006; and
- a customer in the pcp that was a one-off promotional job.

Anticipated revenues flowing from the company's capital re-equipment program have been slower than expected. Trading was also notably softer than expected in the October / December 2006 quarter, largely as a result of customer de-stocking programs.

Despite a very competitive marketplace the company re-signed its 3 largest customers to new supply agreements and volume increases are expected to flow from this. The business was also successful in winning two new tranches of business from existing blue chip pharmaceutical customers. This work will begin to flow shortly in the next half. Industry competition continues to be tight but the company is responding to this challenge through innovation and an expanded product range.

Net profit after tax decreased for the 6 months from \$3.0 million in the prior year to \$2.3 million. Increased depreciation and interest flowing from the company's recent capital investments, accounted for \$0.3 million of this reduction. At this stage the full efficiency and capacity benefits of these investments have yet to be realised. Additionally, profit for the half-year was adversely impacted by an impairment loss of \$0.1 million as the result of a failure of part of a pre-press machine. The results for the half year were also impacted by higher factory overheads, with operating costs being materially above the long term full efficiency cost structure. Selling and administration costs remain under tight control and below last year.

The outcome of the company's restructure plans for the Flexibles business has been very pleasing with that business unit ahead of budget for the half year and well ahead of pcp. The Foilmasters business continues to perform well and is also well ahead of budget and last year.

# Colorpak Limited

## Director's Report

### **Cash Flow and Debt**

Cash generation from operations for the half year was very strong with an inflow of \$4.0 million compared with an outflow of \$0.4 million last year. This arose because of increased receipts and reduced tax payments, with payments to suppliers and employees contained to last year's level. Cash generation in the 2<sup>nd</sup> half of the year is expected to continue to be strong.

The company has now completed its capital re-equipment program. Net capital expenditure in the first half totalled \$7.5 million, of which \$3.7 million was a carry over from last year, having been acquired but unpaid at 30 June 2006. Capital expenditure in the second half of the year is expected to be around \$0.9 million and for the immediate years thereafter, around \$1.0 mill or less annually, with no major items of plant anticipated.

Debt at 31 December 2006 totalled \$37.0 million, in line with expectations. As forecast, debt was up \$4.9 million on the June 2006 position as a result of the net capital investments of \$7.5 million and debt is expected to reduce by year end.

The company maintains adequate cash reserves and undrawn bank credit facilities to meet its expected working capital and capex requirements for the foreseeable future.

### **Operating Activities**

The physical move of the Sydney carton and flexible operations into the new Regents Park site, in June and September 2006 respectively for those business units, went well and to plan. The new factory provides the opportunity for a far more efficient plant as we are now able to align systems and procedures with Braeside best practice. However these best practice improvements are taking some time to bed down and this has had a negative impact on financial performance in the first half. A skills shortage in NSW has increased the current challenges to the Sydney business.

The capital program was successfully implemented, including:

- a Roland 700 six colour twin coating press and a Bobst 106LER die-cutter were successfully commissioned at Regents Park in June / July 2006, substantially increasing production capacity at that site; and
- lost productive capacity at Braeside, which followed the destruction of a Bobst die-cutter by fire in March 2006, was restored in December 2006 following commissioning of a new Bobst 106LER die-cutter.

The properties rented by the company are now owned by Abacus Diversified Income Fund II , having been formerly owned by interests associated with the Commins family.

### **Outlook**

Taking into account the first half results, expected customer activity and management plans to reach full production efficiencies in the new Sydney plant, the outlook for the full year is for sales of between \$71 million and \$73 million, with an NPAT marginally ahead of last year.

### **Dividend**

The company plans to maintain its interim dividend of 1.0 cent per share, fully franked, which will be paid on 5 April 2007 and expects to announce its fully franked final dividend later in the year. On the basis of the forecast NPAT, the company expects to maintain its full year dividend.

### **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 Director's Report

## **Auditor Independence Declaration**

We have obtained an independence declaration from our auditors, Ernst & Young, which is attached at page 4 of this report.

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



G.L. Willis  
Chairman



A. Commins  
Managing Director

Braeside  
27 February 2007

Colorpak Limited  
Director's Report



■ Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000  
Australia

■ Tel 61 3 9288 8000  
Fax 61 3 8650 7777

GPO Box 67  
Melbourne VIC 3001

**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 2006, 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.

A handwritten signature in blue ink, appearing to read 'Robert J Dalton'.

Robert J Dalton  
Partner

Melbourne  
27 February 2007

The logo for Ernst &amp; Young, featuring a stylized 'EY' symbol followed by the text 'Ernst &amp; Young' in a cursive font.

Ernst & Young

Colorpak Limited  
Income Statement  
for the half-year ended 31 December 2006

	Notes	2006 \$000	2005 \$000
Revenue	4	35,307	35,222
Other income		129	-
Changes in inventories of finished goods and work in progress		529	1,067
Raw materials and consumables used		(14,541)	(15,679)
Employee benefits expense		(10,599)	(10,594)
Depreciation and amortisation		(1,324)	(1,116)
Impairment of plant and equipment		(165)	-
Occupancy costs		(1,157)	(952)
Factory operating expense		(2,344)	(1,665)
Other expenses		(1,223)	(924)
<b>Profit before tax and finance costs</b>		<b>4,612</b>	<b>5,359</b>
Finance costs	4	(1,308)	(1,019)
<b>Profit before income tax</b>		<b>3,304</b>	<b>4,340</b>
Income tax expense		(976)	(1,317)
<b>Net profit for the period attributable to members of Colorpak Limited</b>		<b>2,328</b>	<b>3,023</b>
Earnings per share (cents per share)			
- basic and diluted for profit for the period attributable to ordinary equity holders of the company		2.89	3.76
Dividends per share (cents per share)	5	1.75	1.50

Colorpak Limited  
Balance Sheet as at 31 December 2006

	As at 31 December 2006 \$000	As at 30 June 2006 \$000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2	2
Trade and other receivables	11,911	13,772
Inventories	8,230	7,202
Income tax receivable	-	167
Prepayments	672	889
<b>Total Current Assets</b>	<b>20,815</b>	<b>22,032</b>
<b>Non-current Assets</b>		
Property, plant and equipment	29,411	25,083
Goodwill	46,134	46,134
Deferred income tax assets	-	269
<b>Total Non-current Assets</b>	<b>75,545</b>	<b>71,486</b>
<b>TOTAL ASSETS</b>	<b>96,360</b>	<b>93,518</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	7,618	10,830
Interest-bearing loans and borrowings	1,366	3,147
Income tax payable	114	-
Provisions	1,492	1,773
<b>Total Current Liabilities</b>	<b>10,590</b>	<b>15,750</b>
<b>Non-Current Liabilities</b>		
Interest-bearing loans and borrowings	35,589	28,885
Deferred income tax liabilities	195	-
Provisions	1,069	963
<b>Total Non-Current Liabilities</b>	<b>36,853</b>	<b>29,848</b>
<b>TOTAL LIABILITIES</b>	<b>47,443</b>	<b>45,598</b>
<b>NET ASSETS</b>	<b>48,917</b>	<b>47,920</b>
<b>EQUITY</b>		
Issued capital	38,861	38,861
Retained earnings	9,913	8,993
Reserves	143	66
<b>TOTAL EQUITY</b>	<b>48,917</b>	<b>47,920</b>

Colorpak Limited  
Cash Flow Statement  
for the half-year ended 31 December 2006

	Notes	2006 \$000 Inflows/(Outflows)	2005 \$000 Inflows/(Outflows)
<b>Cash flows from operating activities</b>			
Receipts from customers		39,203	36,349
Payments to suppliers and employees		(33,685)	(33,704)
Interest received		21	6
Income taxes paid		(264)	(1,976)
Finance costs		(1,292)	(1,070)
<b>Net cash flows from (used in) operating activities</b>		<b>3,983</b>	<b>(395)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment (*)		1,792	115
Purchase of property, plant and equipment (**)		(9,290)	(4,959)
<b>Net cash flows used in investing activities</b>		<b>(7,498)</b>	<b>(4,844)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		7,500	8,000
Repayment of finance lease principal		(272)	(267)
Repayment of borrowings		(1,500)	(1,200)
Payment of dividends	5	(1,408)	(1,207)
<b>Net cash flows from financing activities</b>		<b>4,320</b>	<b>5,326</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>805</b>	<b>87</b>
Cash and cash equivalents at beginning of period		(889)	(809)
<b>Cash and cash equivalents at end of period</b>	9	<b>(84)</b>	<b>(723)</b>

(\*) Proceeds from sale of property, plant and equipment includes \$1.593 million insurance proceeds for fire destroyed die-cutter.

(\*\*) Purchase of property, plant and equipment in 2007:

- includes \$3.748 million paid in July 2006, being the final payment for a printing press that commenced operations in late June 2006, such amount being included in Other Payables at 30 June 2006; and
- excludes \$0.345 million of Prepayments at 30 June 2006.

Colorpak Limited  
Statement of Changes in Equity  
for the half-year ended 31 December 2006

	Attributable to equity holders of the Company			
	Issued capital \$000	Retained earnings \$000	Cash flow Hedge reserve \$000	Total equity \$000
<b>At 1 July 2005</b>	38,861	6,592	-	45,365
Cash flow hedges:				
Gains / (losses) taken to equity	-	-	(74)	(74)
Deferred tax on gains / (losses)	-	-	22	22
Total income and expense for the period recognised directly in equity	-	-	(52)	(52)
Profit for the period	-	3,023	-	3,023
Total income / expense for the period	-	2,935	(52)	2,883
Equity dividends	-	(1,207)	-	(1,207)
<b>At 31 December 2005</b>	<b>38,861</b>	<b>8,320</b>	<b>(52)</b>	<b>47,129</b>
<b>At 1 July 2006</b>	38,861	8,993	66	47,920
Cash flow hedges:				
Gains / (losses) taken to equity	-	-	110	110
Deferred tax on gains / (losses)	-	-	(33)	(33)
Total income and expense for the period recognised directly in equity	-	-	77	77
Profit for the period	-	2,328	-	2,328
Total income / expense for the period	-	2,328	77	2,405
Equity dividends	-	(1,408)	-	(1,408)
<b>At 31 December 2006</b>	<b>38,861</b>	<b>9,913</b>	<b>143</b>	<b>48,917</b>

# Colorpak Limited

## Notes to the half-year condensed Financial Statements

### 31 December 2006

#### **1. Corporate Information**

The condensed financial report of Colorpak Limited (the company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 27 February 2007.

Colorpak Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange.

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

#### **2. Summary of significant accounting policies**

The half-year condensed 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.

The half-year condensed financial report should be read in conjunction with the annual financial report of Colorpak Limited as at 30 June 2006. It is also recommended that the half-year condensed financial report be considered together with any public announcements made by Colorpak Limited during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

##### **(a) Basis of preparation**

The half-year condensed financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements.

The half-year condensed financial report has been prepared in accordance with the historical cost basis except for derivative financial instruments that have been measured at fair value. The carrying values of recognised liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

For the purpose of preparing the half-year condensed financial report, the half-year has been treated as a discrete reporting period.

The financial report is presented in Australia dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

##### **(b) Significant accounting policies**

The half-year condensed financial report has been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006.

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2006

**3. Segment Information**

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

The company operates entirely in Australia.

2006	2005
\$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	34,948	35,064
Interest from unrelated persons	21	6
Other revenue	338	152
	<u>35,307</u>	<u>35,222</u>

**(ii) Expenses**

**Finance costs**

Interest paid or payable to unrelated persons	1,233	1,049
Finance charges payable under finance leases and hire purchase contracts	92	18
<b>Total finance costs (on historical cost basis)</b>	<u>1,325</u>	<u>1,067</u>
Fair value change on interest rate swaps	(17)	(48)
<b>Total finance costs expensed</b>	<u>1,308</u>	<u>1,019</u>

**(b) Seasonality of Operations**

The company does not typically experience seasonality in relation to demand for its product. Subject to revenue growth attributable to new customers, revenues tend to average out on a productive day basis throughout the year, with a similar number of productive days in both halves of the year.

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2006

	2006 \$000	2005 \$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 2006: 1.75 cents (2005: 1.5 cents)	1,408	1,207
<b>(b) Dividends proposed and not yet recognised as a liability</b>		
Interim franked dividend for financial year 30 June 2007: 1.0 cent (2006: 1.0 cent)	805	805
	1,213	2,012
<b>6. Expenditure Commitments</b>		
Estimated capital expenditure contracted for at reporting date, but not provided for:	330	3,777

**7. Contingent Assets and Liabilities**

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets. The supplier claim for \$54,000 in respect to business interruption caused by faulty equipment, referred to in the 2006 Annual Report, was settled in full during the half-year.

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

Since 31 December 2006 the following events have occurred:

- the directors have declared an interim ordinary dividend of 1.0 cent per share (fully franked) to be paid on 5 April 2007. The total value of this dividend is \$0.805 million.

The financial effect of this dividend has not been brought to account for the half-year ended 31 December 2006 and will be recognised in the subsequent financial period.

Colorpak Limited  
Notes to the half-year condensed Financial Statements  
31 December 2006

2006	2005
\$000	\$000

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## 9. Additional Information

### Reconciliation of Cash:

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

Cash at bank and in hand	2	2
Bank overdraft	(86)	(725)
	<hr/>	<hr/>
	(84)	(723)

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# 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 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) 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  
27 February 2007

To the members of Colorpak Limited

### **Report on the Half-Year Condensed Financial Report**

We have reviewed the accompanying half year condensed financial report of Colorpak Limited, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Half Year Condensed Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half year condensed financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half year condensed financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half year condensed financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 entity's financial position as at 31 December 2006 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* and other mandatory financial reporting requirements in Australia. As the auditor of Colorpak 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 condensed 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 attached behind 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 interim financial report of Colorpak Limited, is not in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the entity's financial position as at 31 December 2006 and of its performance for the half year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Robert J Dalton  
Partner

Melbourne  
27 February 2007