# Pro-Pac

Packaging Limited

ACN: 112 971 874

2010 Annual Report

Industry leader in the design, engineering and installation of protective packaging systems

**Manufacturer of biodegradable voidfill packaging**

Range of technological services including: package design and development; tool making and custom molding of blow and injection molded components

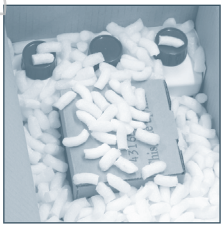
**General warehouse packaging**

One-stop shop for rigid, flexible and industrial packaging

**Extensive range of domestic and imported containers, closures and decorations**

Pro-Pac Packaging
Corporate Protective Packaging Specialists

PB Packaging
Containers and Closures for All Industries





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# General Information

## Directors
David Herlihy (Chairman)
Elliott Kaplan
Hadrian Morrall
Brandon Penn

## Company Secretary
Mark Saus

## Registered Office
9 Widemere Road
Wetherill Park NSW 2164

## Share Register
Registries Limited
Level 7 / 207 Kent Street
Sydney NSW 2000

## Solicitors
Thomsons Lawyers
Australia Square Tower
Sydney NSW 2000

## Bankers
Commonwealth Bank of Australia
Premium Business Services
Level 1, 430 Forest Road
Hurstville NSW 2220

## Auditors
UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000

# Chairman's Report

It gives me great pleasure to present on behalf of the Board of Directors of Pro-Pac Packaging Ltd the Annual Report for the year ended 30th June 2010.

The year was a particularly dynamic one for the Company in many areas and was capped by record revenue and earnings results for the period. Revenue was up 23% to $91m and profit before tax up 133% to $7.2m resulting in earnings per share of 4.1 cents which is significantly higher than the 1.9 cents of the previous year.

As well as meeting the continuing challenges of the business, in a difficult and competitive environment, management embarked on a significant consolidation of its manufacturing and distributing sites in each state. Planning was conducted through the financial year and the first amalgamation of sites commenced in Victoria in June. Subsequent to June 2010, the first stage of the New South Wales site amalgamation began with the Company planning for further amalgamation in New South Wales and Queensland in the 2011 financial year.

These exercises involve capital expenditure and investment, in some cases without immediate quantifiable return. We are well aware of this potential drain on short term profitability and planning to keep any adverse impact to a minimum. Our results in the medium and longer term are however expected to be significantly improved by these initiatives.

Additionally, we completed two acquisitions during the 2010 financial year, Creative Packaging in Queensland and Ruscon Plastics in Victoria. Goodman Packaging with operations in New South Wales and Western Australia was acquired soon after June 2010.

Whilst there can be no certainty as to the economic conditions that will prevail in the 2011 financial year, the Board and management are clearly focused on building on the 2010 results and initiatives. It is not unreasonable therefore to expect efficiency gains from the site consolidations and further earnings accretive acquisitions.

During the year, Mr John Read retired as Chairman from the Board after almost five years of dedicated service. I was appointed to the Board in February 2010 with several changes to the senior management structure following in March 2010. Mr Brandon Penn as CEO, assumed overall responsibility for the Group while Mr Hadrian Morrall and Ms Wendy Penn were appointed Managing Directors of the Rigid Packaging and Industrial Packaging divisions, respectively.

On behalf of the Board I would like to acknowledge and thank management and all staff for their efforts and loyalty in achieving the outstanding and very pleasing results.

**David J Herlihy**
*Chairman*

6 October 2010

# Directors' Report



The Directors present the Financial Report of Pro-Pac Packaging Limited ("the Company") and the Consolidated Entity ("PPG") being the company and its controlled entities, for the year ended 30 June 2010, together with the Auditors' report thereon.

## Directors

The Directors in office at the date of this report and during the year are as follows:

**David Herlihy**
BA (UNSW)
(Chairman and Non-Executive Director – appointed Director 8 February 2010; Chairman 1 March 2010)

Mr Herlihy is an experienced director and business professional, whose Board and corporate advisory responsibilities have covered public, government, "not for profit" and private enterprise following a successful career in capital markets. Mr Herlihy has held a diverse range of directorships over the past three decades, including as a former Chairman of the State Transit Authority of NSW. Mr Herlihy is presently Chairman of the ASX listed entity, Mosaic Oil NL and concurrently holds directorships on several other unlisted Boards including representation of international entities.

Mr Herlihy is Chairman of the Remuneration Committee and a member of the Audit Committee.

**Elliott Kaplan**
BAcc, CA
(Non-Executive Director – appointed 16 February 2005)

Mr Kaplan is a Chartered Accountant with extensive experience in senior financial and chief executive officer roles in both private and public listed companies. His experience, from both an investor and investee perspective, spans a diverse range of industries including manufacturing, environmental, distribution and services. Mr Kaplan is Managing Director of CVC Private Equity Limited, a non-executive director of Dolomatrix Limited (ASX code: DMX) and a director of a number of unlisted companies. Mr Kaplan is also a former director of The Environmental Group Limited (ASX Code: EGL).

Mr Kaplan is Chairman of the Audit Committee and a member of the Remuneration Committee.

**Hadrian Morrall**
(Executive Director – appointed 16 August 2007)

Mr Morrall has over 20 years experience in the plastics industry. He is a founding director of Plastic Bottles Pty Ltd (PB Group) and has held the position of Managing Director of the PB Group for the last 17 years. He oversaw the growth of that company from its start in Sydney to a National Group and its diversification into manufacturing through various acquisitions. Prior to the PB Group, Mr Morrall spent 3 years in Plastic distribution with Edwards Durapak as Sales Manager. He is the President of the BMIA (Blowmolders Industry Association) and is a qualified Automotive Engineer.

**Brandon Penn**
B. Com
(Executive Director – appointed Non-Executive Director 16 August 2007, Executive Director 1 March 2009)

Mr Penn is the founding director of the PB Group. He has had extensive experience in start up businesses.

Mr Penn has had a number of business interests alongside the PB Group including the establishment of a dominant software development company, Dealing Information Systems (DIS), which developed wholesale banking systems. DIS was acquired in 1996 by Sungard Data Systems NYSE. Mr Penn assumed Asia-Pacific responsibility for the Sungard companies and offices throughout the Asia Pacific region.

In 2001 Mr Penn left Sungard to concentrate on his interest in the PB Group as a non-executive Director. He has been instrumental in negotiating and integrating a number of acquisitions growing the PB Group into a rapid growth multi-state importation, manufacturing and distribution business.

**John Read**
B.Sc. (Hons) (Cant.), MBA (AGSM), FAICD
(Chairman and Non-Executive Director – appointed 23 August 2005; resigned 1 March 2010)

Mr Read was Chairman of the Remuneration Committee and a member of the Audit Committee until 1 March 2010.

## Company Secretary

**Mark Saus**
B.Com, B. Compt (Hons), CPA
(Company Secretary and Chief Financial Officer - appointed 2 September 2005)

Mr Saus has more than 20 years experience in commercial and financial management roles in private and public listed companies both in Australia and overseas. His experience spans a diverse range of industries including manufacturing, distribution and retail. Recent roles include head of finance positions in high growth SME environments. Mr Saus is also the Chief Financial Officer of the Group.

# Directors' Report

## Interests in the Shares and Options of the Company

As at the date of this report, the relevant interests of the directors in the shares and options of Pro-Pac Packaging Limited are shown in the table below:

| | Ordinary Shares | Interest in Ordinary Shares through Directorships of Corporate Shareholders |
|---|---|---|
| David Herlihy | Nil | Nil |
| Elliott Kaplan | 1,483,096 | 8,127,252 |
| Hadrian Morrall | 12,517,618 | - |
| Brandon Penn | 19,561,565 | - |

## Meetings of Directors

Attendances by each director during the year were:

| | Board | | Audit committee | | Remuneration committee | |
|---|---|---|---|---|---|---|
| | Number of meetings held while in office | Meetings attended | Number of meetings held while in office | Meetings attended | Number of meetings held while in office | Meetings attended |
| David Herlihy | 4 | 4 | 1 | 1 | 1 | 1 |
| John Read | 7 | 7 | 4 | 3 | - | - |
| Elliot Kaplan | 10 | 10 | 4 | 4 | 1 | 1 |
| Hadrian Morrall | 10 | 10 | - | - | - | - |
| Brandon Penn | 10 | 10 | - | - | - | - |

## Principal Activities

Pro-Pac Packaging Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity during the year were the manufacture and distribution of industrial, protective and rigid packaging products.

There have been no significant changes in the nature of these activities during the year.

## Overview of the Company's Business

Pro-Pac Packaging Limited is a diversified manufacturing and distribution company, providing innovative, flexible and rigid packaging solutions for a broad group of customers. PPG is headquartered in Sydney with operations in Adelaide, Brisbane, Melbourne and Perth.

## Review of Operations

The Directors of Pro-Pac Packaging Limited (ASX: PPG) are pleased to provide this commentary on the performance of the company and its controlled entities ("the Group") for the financial year ended 30 June 2010.

## Results for the Year Ended 30 June 2010

The company continued to deliver strong top and bottom line growth achieving record revenue and earnings for the 2010 financial year.

Sales grew 23% to $90.9m with EBITDA of $10.1m increasing by 77%. Profit before tax was up 133% to $7.2m and after tax was $5m. Earnings per share were 4.1 cents, a significant increase on the 1.9 cents per share earned in the 2009 financial year.

Significant investment in working capital required for the continued growth of the Company resulted in cash flow from operations being restricted to approximately $3.5m.

The first half of the financial year, leading up to the peak Christmas trading season, traditionally generates stronger revenues and profits and while this pattern was repeated in the 2010 financial year, trading for the second half was satisfactory and in line with expectations.

The company continued to expand its operations and its product offering with the acquisition of Creative Packaging with effect from 1 March and the acquisition of Ruscon Plastics with effect from 16 June 2010. Subsequent to the end of the financial year, the company announced the acquisition of the business of Goodman Packaging.

Despite the recent acquisitions being funded partly by way of debt, the company's gearing ratio (net interest bearing debt/shareholders' equity) remains reasonably conservative at approximately 22%.

## Outlook

The strong organic and acquisitive growth has resulted in the company operating out of a number of disparate sites in each of its major geographic markets. In relation to the Industrial division, the company announced in June the consolidation of its Victorian businesses into one large modern site and a similar consolidation for the division's New South Wales operation is scheduled for the end of the first quarter of the current financial year. Plans to consolidate this division's Queensland businesses are also currently under review. These consolidation projects provide the necessary platforms and infrastructure for the anticipated continued growth of the businesses and while there are abnormal relocation and rationalisation costs associated with these consolidations, there are significant efficiency benefits and savings to be gained.

The company has forecast further growth for the 2011 financial year and with management focused on consolidation, operational efficiencies and business development, the Board is optimistic that earnings per share before "once off" relocation and consolidation costs, will continue to grow.

## Dividends

Following the payment of a fully franked 1 cent per share interim dividend on 9 April 2010, the Board has resolved to declare a fully franked final dividend of 1 cent per share. The company's dividend reinvestment plan will apply. The record date for determining entitlements to the dividend will be 8 September 2010 and the dividend will be paid on 22 October 2010.

## Financial Position

The Group's balance sheet continues to strengthen as a consequence of its earnings performance with shareholders' equity of the consolidated Group increasing by $7,160,000 to $57,854,000. The Group's organic and acquisitive growth required additional investment in working capital and together with debt raised to partly fund acquisitions made during the year, resulted in increased borrowings. Despite this, the Group's gearing ratio (net interest bearing debt/shareholders' equity) remains reasonably conservative at approximately 22%.

## Capital Structure

During the year 5,747,000 shares were issued under the Dividend Reinvestment Plan while 7,235,712 shares were issued as part consideration for the acquisition of Creative Packaging (Pty) Ltd. At 30 June 2010 there were 133,143,012 shares on issue.

## Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company during the year under review.

## Significant Events Subsequent to Balance Date

Effective 1 July 2010, Pro-Pac Packaging (Aust) Pty Ltd, acquired the business and assets of Dysher Pty Ltd, trading as Goodman Packaging, a Sydney and Perth based distributor of industrial packaging products with a current annualised turnover of approximately $6.5m.

## Likely Developments

The Group proposes to continue with the consolidation and integration projects discussed under "Outlook" above and will continue to assess new business initiatives and synergistic acquisitions.

## Environmental Regulation and Performance

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## Indemnification and Insurance of Directors and Officers

The Company has entered into a deed of access, indemnity and insurance with each of the Directors, under which the Company has agreed to:

- continue to provide the Directors with access to certain relevant information after they cease to be Directors;

# Directors' Report

- to the extent permitted by law, indemnify the Directors against liabilities incurred in their capacity as directors of the Company and its subsidiaries; and
- maintain certain Directors' liability insurance in respect of Directors, both during and after the period they are Directors.

The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance for the Directors of the Company.

These contracts of insurance prohibit the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

The Group has not, during the year or since the end of the financial year, in respect of any person who is or has been an auditor of the Group, paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expense of defending legal proceedings.

## Remuneration Report

### Remuneration policy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives.

The Remuneration Committee comprises David Herlihy (Chairman effective 1 March 2010), and Elliott Kaplan each of whom is a Non-Executive Director.

John Read (former Chairman of the Remuneration Committee; resigned 1 March 2010).

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Group. Further details on the remuneration of Directors and executives are set out in this Remuneration Report.

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

### Non-Executive Director remuneration

The Company seeks to set aggregate remuneration at a level which provides the Company with the ability to attract retain and motivate directors of the highest quality, whilst incurring a cost which is acceptable to shareholders.

The Constitution of the Company and the ASX Listing Rules specify that non-executive directors are entitled to receive remuneration for their services as determined by the Company in a General Meeting. The Company has resolved that the maximum aggregate amount of directors' fees (which does not include remuneration of executive directors and other non-director services provided by directors) is $200,000 per annum. Non-executive directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company. A director may also be remunerated as determined by the directors if that director performs additional or special duties for the Company.

The remuneration of the Company's Non-Executive Directors for the period ending 30 June 2010 is detailed in Table 1 of this Remuneration Report.

### Executive Director and Senior Management remuneration

The Group aims to develop remuneration packages properly reflecting each person's duties and responsibilities and the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Remuneration Committee is responsible for reviewing and providing recommendations to the Board with respect to the remuneration packages of senior management and executive directors.

The Remuneration Committee is responsible for providing advice to the Board with respect to non-executive directors' remuneration.

The Board is responsible for determining remuneration packages applicable to the Board members and the Chief Executive Officer. The Chief Executive Officer determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board.

The remuneration of the Chief Executive Officers and senior management for the year ending 30 June 2010 is set out in Table 1 of this report.

### Employment contracts

***Chief Executive Officer***

The Company has entered into an executive service agreement with Mr Brandon Penn in relation to his role as Chief Executive Officer of the Group. The agreement expires on 31 August 2011. In his executive service agreement, Mr Penn agrees that all intellectual property rights created, developed or acquired by him in the course of his employment, belong to the Company.

At the end of the contract period, the Company or the executive may terminate the service agreement by giving the other party six months notice.

The Company may terminate the agreement at any time with immediate effect in the event of non-performance of duties or in the event of dishonesty, a willful breach, non-observance or neglect in the discharge of duties. The agreement provides that for a period of twenty four months after termination of his employment contract (less any served notice period) Mr Penn will not compete with Pro-Pac in Australia.

***Senior Management***

Employment agreements entered into with senior management contain the following key terms:

| Event | Company Policy |
|---|---|
| Resignation/notice period | 1 month or less |
| Serious misconduct | Company may terminate at any time |
| Payouts upon resignation or termination, outside industrial regulations (ie 'golden handshakes') | None |

**Executive Long Term Incentive Plan (ESPP)**

The Company has established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act. There are currently 1,325,000 shares issued to employees under the Plan. (675,000 shares have been returned to the Company pending cancellation at the next Annual General Meeting of the shareholders.)

The following are the key terms and conditions of the ESPP:

- No Shares under the ESPP will be allotted unless the requirements of the Corporations Act 2001 and the ASX Listing Rules have been complied with.
- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of shares is 3 years.
- The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares surrendered in full settlement of the outstanding loan balance.

**Key Management Personnel at 30 June 2010**

| | | |
|---|---|---|
| David Herlihy | – | Chairman (non-executive) |
| Elliot Kaplan | – | Director (non-executive) |
| Hadrian Morrall | – | Director (executive - appointed Divisional Managing Director 1 March 2010) |
| Brandon Penn | – | Director (executive - appointed Group CEO 1 March 2010) |
| Wendy Penn | – | Divisional Managing Director (appointed 1 March 2010, previously CEO from 1 April 2008 until 28 February 2009 and Divisional director until 28 February 2010) |
| Mark Saus | – | Chief Financial Officer |

# Directors' Report

### Remuneration of Key Management Personnel

Excluding the Directors, there are only two staff members of the Company who qualify as a "Key Management Personnel" for the purposes of this report. The executive key management personnel are also the most highly paid executive officers of the consolidated entity for the year under review.

Table 1

| | | Short-term benefits | | Post employment benefits | Other long term benefits | Share based payment | Total | |
|---|---|---|---|---|---|---|---|---|
| | | Cash, salary and commissions | Cash profit share and non-cash benefit | Super-annuation | Other | Equity and options | | Performance based |
| | | $ | $ | $ | $ | $ | $ | |
| David Herlihy | 2010 | 22,500 | - | - | - | - | 22,500 | - |
| | 2009 | - | - | - | - | - | - | - |
| John Read | 2010 | 36,667 | - | 3,300 | - | - | 39,967 | - |
| | 2009 | 55,000 | - | 4,950 | - | - | 59,950 | - |
| Elliott Kaplan | 2010 | 40,000 | - | - | - | - | 40,000 | - |
| | 2009 | 40,000 | - | - | - | - | 40,000 | - |
| Hadrian Morrall | 2010 | 197,003 | - | 17,861 | 22,980 | - | 237,844 | - |
| | 2009 | 187,023 | - | 19,915 | 16,823 | - | 223,761 | - |
| Brandon Penn | 2010 | 224,185 | - | 19,816 | - | - | 244,001 | - |
| | 2009 | 91,028 | - | 4,655 | - | - | 95,683 | - |
| Wendy Penn | 2010 | 55,000 | - | - | - | - | 55,000 | - |
| | 2009 | 165,000 | - | - | - | - | 165,000 | - |
| Mark Saus | 2010 | 171,739 | - | 15,350 | - | 1,218 | 188,307 | 6.0% |
| | 2009 | 154,380 | - | 18,416 | - | 2,160 | 174,956 | 1.2% |
| **Total Remuneration** | **2010** | **747,094** | **-** | **56,327** | **22,980** | **1,218** | **827,619** | **-** |
| | **2009** | **692,431** | **-** | **47,936** | **16,823** | **2,160** | **759,350** | **-** |

**Options issued as part of remuneration for the year ended 30 June 2010**

No options were granted as remuneration during the year ended 30 June 2010.

**Shares and Loans issued under the ESPP during the year ended 30 June 2010**

No shares or loans were issued under the ESPP during the year ended 30 June 2010.

**ESPP Shares of Key Management Personnel as at the date of this report**

| 2010 | ESPP Shares (number) | ESPP Shares $ | ESPP Loans Outstanding $ | ESPP Issue Price $ | ESPP Expiry Date $ |
|---|---|---|---|---|---|
| Mark Saus | 300,000 | 97,500 | 97,500 | 0.325 | 30 August 2013 |
| **Total** | **300,000** | **97,500** | **97,500** | | |

**Option Holdings of Key Management Personnel**

There have been no options held by the Key Management Personnel during the year.

**Loans to Key Management Personnel**

Other than loans issued in relation to the Company's ESPP shares detailed above, there were no loans to Key Management Personnel during the year.

**Other Transactions with Key Management Personnel**

During the year the Company paid $740,076 (inc. GST) to entities associated with directors Hadrian Morrall and Brandon Penn for property rental and outgoings, based on normal commercial terms and conditions.

## Share Options

During the prior year 400,000 options in the Company's unissued ordinary shares were issued for services rendered by a consultant.

The options were issued at an exercise price of 32.8 cents per share exercisable at any time prior to 30 September 2011. As at the date of this report (and at the balance date) there were 400,000 unissued ordinary shares under options.

## Proceedings on Behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## Rounding of Accounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

# Directors' Report

## Auditors Independence Declaration and Non-Audit Services

Other than as disclosed in Note 30, there were no non-audit services provided by the entity's auditors UHY Haines Norton.

The Auditor's independence declaration as required under S307C of the Corporations Act 2001 for the year end 30 June 2010 has been received and can be found on page 11 of the Directors' report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors.

Dated this 27th day of September 2010.

| | |
|---|---|
| **Elliott Kaplan** | **Hadrian Morrall** |
| *Director* | *Director* |

# Auditors' Independence Declaration

**Under Section 307c of The Corporations Act 2001**
**To the Directors of Pro-Pac Packaging Limited**

I declare that, to the best of our knowledge and belief, during the year ended 30 June 2010, there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

**Mark Nicholaeff**
*Partner*

**UHY Haines Norton**
*Chartered Accountants*

Signed at Sydney on 24 September 2010.

# Corporate Governance Statement

The Board of Directors of Pro-Pac Packaging Limited is responsible for the corporate governance of the Company and its controlled entities (Pro-Pac) and to ensure that Pro-Pac is directed and managed appropriately. In this regard, the Board is committed to ensuring accountability and that control systems are commensurate with the risks involved to enable Pro-Pac to create value and optimise its performance.

During August 2007, the ASX Corporate Governance Council released its Corporate Governance Principles and Recommendations – 2nd edition (ASX Principles). The ASX Listing Rules require Pro-Pac to provide a statement in its Annual Report disclosing the extent to which they have followed the best practice recommendations during the reporting period, and if any recommendations are not followed, an explanation is provided.

The Company's Corporate Governance Statement is structured with reference to the Australian Securities Exchange ("ASX") Corporate Governance Council's (the "Council") "Corporate Governance Principles and Recommendations", which are as follows:

Principle 1 – Lay solid foundations for management and oversight

Principle 2 – Structure the Board to add value

Principle 3 – Promote ethical and responsible decision making

Principle 4 – Safeguard integrity in financial reporting

Principle 5 – Make timely and balanced disclosure

Principle 6 – Respect the rights of shareholders

Principle 7 – Recognise and manage risk

Principle 8 – Remunerate fairly and responsibly

A copy of the "Corporate Governance Principles and Recommendations" can be found on the ASX's website at asx.com.au.

However, the ASX Corporate Governance Council acknowledged that "a one size fits all" approach is inappropriate and that it is unwise to require all companies to apply the same rules because different companies face different circumstances hence some recommendations are unnecessary or may even be counter-productive. In particular it acknowledged that it may be inappropriate or uneconomic for smaller companies, such as Pro-Pac, to follow the same rules as Australia's largest listed companies. Instead the Council chose to issue a full suite of recommendations and require companies to adopt an 'if not why not' approach to reporting compliance with the recommendations. Companies are at liberty to determine whether each recommendation is appropriate to them. They are required to disclose in the Corporate Governance Statement of their annual reports those recommendations which they have not adopted during each reporting period and provide explanations for their decisions.

A number of the best practice recommendations require the formal documentation of policies and procedures that Pro-Pac already substantially performs. Pro-Pac considers that to create such further documentation independently and specifically for Pro-Pac would have minimal additional benefit but substantial additional expense. Pro-Pac is also mindful to not adopt such procedures solely for the sake of adoption or where they could actually inhibit the proper function or opportunities of Pro-Pac. However it recognises that it has to put in place a compliance program which includes the documentation of its compliance policies and procedures and a Risk Management Statement which considers the major risks to Pro-Pac operations, the rating and ranking of these risks to set priorities in the treatment of the risks. The Board has determined that the adoption of such formal policies and procedures must be tailored to Pro-Pac at minimal expense and must be appropriate for Pro-Pac, taking into account the size and complexity of its operations.

This statement summarises the corporate governance practices currently in place at Pro-Pac. The Board recognises that in a changing world, it is important to review these practices and policies from time to time to ensure they continue to reflect local and international developments and assist Pro-Pac in optimising its corporate performance and accountability. Pro-Pac will continue to keep its corporate governance practices under review. Key summaries of the corporate governance practices and policies and other key documents can be found on Pro-Pac's website at ppgaust.com.au.

## ASX Principle 1 - Lay solid foundations for management and oversight

***Companies should establish and disclose the respective roles and responsibilities of board and management.***

- Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.
- Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.
- Recommendation 1.3: Companies should provide the information indicated in the Guide to reporting on Principle 1.

### Role of the Board

The Board has adopted a charter that establishes the role of the Board and its relationship with management.

The primary role of the Board is the protection and enhancement of long-term shareholder value. Its responsibilities include the overall strategic direction of Pro-Pac, establishing goals for management and monitoring the achievement of these goals. The functions and responsibilities of the Board and management are consistent with *ASX Principle 1*. A summary of the matters reserved for the Board can be found in the corporate governance section of the Pro-Pac website. (ppgaust.com.au)

Pro-Pac has in place systems designed to fairly review and actively encourage enhanced Board and management effectiveness. The Chairman has the responsibility to review continually the performance of each director and the Board as a whole. The performance of the Board is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which Directors and Executives are assessed is aligned with the financial and non-financial objectives of Pro-Pac. From time to time and, as considered appropriate, the Chairman will seek external assistance and advice to undertake these performance reviews.

A performance evaluation for senior executives was undertaken during the reporting period. This entails an evaluation of the executive against a pre-determined set of objectives and key performance areas.

## ASX Principle 2 - Structure the Board to add value

***Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.***

- Recommendation 2.1: A majority of the board should be independent directors.
- Recommendation 2.2: The chair should be an independent director.
- Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.
- Recommendation 2.4: The board should establish a nomination committee.
- Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
- Recommendation 2.6: Companies should provide the information indicated in the Guide to reporting on Principle 2.

### Structure of the Board

The skills, experience and expertise relevant to the position of director held by each Director in office at the date of this Report is included in the Directors' Report. Corporate Governance Council Recommendation 2.1 recommends that a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the independent exercise of their judgement.

When determining the independent status of a director the Board would consider whether the Director is, inter alia:

- a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company; and
- employed, or has previously been employed in an executive capacity by the company or another group member, and there has not been a period of at least three years between ceasing such employment and serving on the board.

In accordance with the above criteria, the following Directors are not considered to be independent:

| Name | Reason for non-compliance |
|---|---|
| Elliott Kaplan<br>*Non-Executive Director* | Mr Kaplan is a director of CVC Private Equity Limited, a substantial shareholder. |
| Hadrian Morrall<br>*Executive Director* | Mr Morrall is employed by the Company in an executive capacity, is a substantial shareholder and a supplier of leasehold premises. |
| Brandon Penn<br>*Executive Director* | Mr Penn is employed by the Company in an executive capacity, is a substantial shareholder and a supplier of leasehold premises. |

The Chairman and Non-Executive Director, Mr David Herlihy is considered to be an independent Director.

The Company does not satisfy Corporate Governance Council Recommendation 2.1 as it does not have a majority of independent directors. Given the size of the Company and the Board, the Company does not consider compliance with Recommendation 2.1 would necessarily enhance shareholder value.

# Corporate Governance Statement

The Board distinguishes between the concept of independence and the issues of conflict of interest or material personal interests which may arise from time to time.

Wherever there is an actual or potential conflict of interest or material personal interest, the Board's policies and procedures ensure that the directors:

- fully and frankly inform the Board about the circumstances giving rise to the conflict; and
- abstain from voting on any motion relating to the matter and absenting himself or herself from Board deliberations relating to the matter including receipt of Board papers bearing on the matter.

If the Board resolves to permit a Director to have any involvement in a matter involving possible circumstances of conflicting interests, the Board will minute full details of the basis of the determination and the nature of the conflict including a formal resolution concerning the matter.

If a Director believes that he or she may have a conflict of interest or duty in relation to a particular matter, the Director should immediately consult with the Chairman. The Company Secretary will maintain a register of all possible conflict of interest situations.

The Company also has a Director's Code of Conduct which sets out standards to which each director will adhere whilst conducting his duties. The code requires a Director, amongst other things, to:

- act honestly, in good faith and in the best interests of the Company as a whole;
- perform the functions of office and exercise the powers attached to that office with a degree of care and diligence that a reasonable person would exercise if he were a Director in the same circumstances; and
- consider matters before the Board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the Company.

The Company considers industry experience and specific expertise, as well as general corporate experience, to be important attributes of its Board members. The Directors noted above have been appointed to the Board due to their considerable industry and corporate experience.

There are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each Director in office at the date of this report is listed below. Note that the Company was incorporated in February 2005.

| Name | Term in office |
|---|---|
| David Herlihy | 7 months |
| Elliott Kaplan | 68 months |
| Hadrian Morrall | 37 months |
| Brandon Penn | 37 months |

The Board believes that a Board of four Directors operates effectively, generally allows the Board to collectively exercise its authority without the need for many sub-committees and is appropriate for the size of the Company. Further, the Board has considered the competencies and experience of each of the Directors and believes that it is not in the interests of shareholders to seek to replace any of the current Board members. For these reasons, the Company did not adopt the following best practice recommendations throughout the financial year ended 30 June 2010:

- having a majority of independent Directors;
- having an independent Chairman for its Audit Committee; and
- having a Nomination Committee of the Board.

An evaluation of the Board, its committees and directors was undertaken by the Chairman during the year.

### Nomination and appointment of new directors

The Board has elected not to establish a formal Nominations Committee to oversee the appointment and induction process for Directors. The Board has determined that it may deal more effectively with such matters as a single body. The ASX Guidelines contemplate that a Nomination Committee may not always be appropriate for Company's with smaller boards of directors.

## ASX Principle 3 - Promote ethical and responsible decision-making

***Companies should actively promote ethical and responsible decision-making.***

- Recommendation 3.1: Companies should establish a code of conduct and disclose the code ora summary of the code as to:
    - the practices necessary to maintain confidence in the company's integrity;

  - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and
  - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
- Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.
- Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.

In line with *ASX Principle 3*, the Board has established a Code of Conduct and Securities Trading Policy.

### Code of Conduct

The purpose of the Code of Conduct is to guide all employees, including Directors as to:

- the practices necessary to maintain confidence in Pro-Pac's honesty and integrity;
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The overriding principle is that all business affairs of Pro-Pac must be conducted legally, ethically and with strict observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, Directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice.

Pro-Pac has in place a code of conduct which sets standards for the Board and employees in dealing with Pro-Pac's customers, suppliers, shareholders and other stakeholders. A copy of this code of conduct is available on the Pro-Pac website.

### Securities Trading Policy

A securities trading policy has been adopted and is binding on all Directors, officers and employees of Pro-Pac. This policy imposes trading restrictions on all Directors, officers and employees of Pro-Pac in possession of 'inside information'. A copy of the Securities Trading Policy is posted on the Pro-Pac website.

Directors are required to comply with the requirements of the ASX Listing Rules and their letter of appointment and promptly advise Pro-Pac of any dealing in Pro-Pac shares to allow Pro-Pac to make the necessary disclosures to the ASX.

## ASX Principle 4 - Safeguard integrity in financial reporting

***Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.***

- Recommendation 4.1: The board should establish an audit committee.
- Recommendation 4.2: The audit committee should be structured so that it:
  - consists only of non-executive directors
  - consists of a majority of independent directors
  - is chaired by an independent chair, who is not chair of the board
  - has at least three members.
- Recommendation 4.3: The audit committee should have a formal charter.
- Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

*ASX Principle 4* requires Pro-Pac to "have a structure to independently verify and safeguard the integrity of the company's financial reporting". The Board believes its practices are in accordance with this principle.

### Audit Committee

To assist in the execution of its responsibilities, the Board has established an Audit Committee.

The structure of the Audit Committee and its responsibilities reflect in part the requirements of *ASX Principle 4*. A summary of the Charter setting out the Committee's responsibilities is posted on the Pro-Pac website.

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company.

This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

The Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

# Corporate Governance Statement



The Committee comprises Mr Kaplan and Mr Herlihy. Each member is financially literate (i.e. they are able to read and understand financial statements) and Mr Kaplan has financial expertise (i.e. he is a Chartered Accountant). All members have some understanding of the industry in which the Company operates.

Recommendation 4.2 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. The Company does not, given its size and the size of its Board, satisfy this requirement.

For additional details of Directors' attendance at Audit Committee meetings and to review the qualifications of the members of the Audit Committee, please refer to the Directors' Report.

## ASX Principle 5 - Make timely and balanced disclosure

***Companies should promote timely and balanced disclosure of all material matters concerning the company.***

- Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.
- Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

Consistent with *ASX Principle 5*, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way.

The Company has adopted an External Communications Policy reflecting the principles set out in *ASX Principle 5*. This policy has been placed on the Pro-Pac website.

## ASX Principle 6 - Respect the rights of shareholders

***Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.***

- Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.
- Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

Pro-Pac has adopted a number of different practices designed to promote effective communication with shareholders as recommended by *ASX Principle 6* and as reflected in the Company's External communications policy, published on its website. These practices include placing on the Pro-Pac website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Chairman or Chief Executive Officers. Annual reports are distributed to all shareholders by mail or email (unless a shareholder has specifically requested not to receive these documents).

A representative from the auditors of Pro-Pac attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Shareholders are given the opportunity to raise questions with any of the Directors at shareholder meetings, both formally and informally.

The External communications policy also elaborates on the Company's continuous disclosure policy.

## ASX Principle 7 - Recognise and manage risk

***Companies should establish a sound system of risk oversight and management and internal control.***

- Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.
- Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.
- Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

- Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.

*ASX Principle 7* recommends that a company "establish a sound system of risk and oversight and management and internal control."

In addition to its financial reporting obligations, the Audit Committee is responsible for reviewing the risk management framework and policies of Pro-Pac. The structure of the Audit Committee and its responsibilities reflect in part the requirements of *ASX Principle 7* and are set out in the Company's Audit committee charter, published on its website.

In performing this function, the Committee receives periodic reports from the external auditor, senior management and, in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the group's insurance program. In line with *ASX Principle 7*, Pro-Pac adopted the policy requiring the Chief Executive Officer and Chief Financial Officer to confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. The board has received the relevant declarations on 24 September 2010.

Note 21 details the policies set in place by the Board to manage the risks arising from the Company's financial instruments.

## ASX Principle 8 - Remunerate fairly and responsibly

***Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.***

- Recommendation 8.1: The board should establish a remuneration committee.
- Recommendation 8.2: Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
- Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and Executive team by remunerating directors and key executives fairly and appropriately with reference to relevant and employment market conditions. To assist in achieving this objective, the Board will link the nature and amount directors' emoluments to the Company's financial and operations performance.

The Board has in place a Remuneration Committee to assist the Board in relation to human resources issues affecting the Pro-Pac Group. The structure of this Committee and its responsibilities reflect in part the requirements of *ASX Principle 8*. The Committee comprises Mr Herlihy and Mr Kaplan. In addition to the members, the Chief Executive is invited to the meetings at the discretion of the Committee. Refer schedule of meetings of directors on page 4.

A charter setting out the responsibilities of the Committee has been adopted and a summary of this charter is posted on the Pro-Pac website.

This Committee is responsible for ensuring that the recruitment and remuneration policies and practices of Pro-Pac are consistent with its strategic goals and human resources objectives and are designed to enhance corporate and individual performance as well as meet the appropriate recruitment and succession planning needs.

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for Directors (as approved by shareholders). The Committee may consult with remuneration advisors to Pro-Pac to assist in its role.

The remuneration committee is also responsible to determine and review compensation arrangements for the directors and to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. In carrying out its functions the Remuneration Committee considers remuneration issues annually and otherwise as required in conjunction with the regular meetings of the Board. Compensation arrangements are determined subject to the Company's constitution and prior shareholder approvals.

Remuneration of non-executive Directors is in accordance with resolutions of shareholders in the general meeting. The Company does not have any schemes for retirement benefits, other than statutory superannuation for non-executive Directors.

Details of the directors and key executives remuneration are set out in the Directors' Report.

# Consolidated Statement of Comprehensive Income

For the year to 30 June 2010

| | Notes | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|---|
| **Revenue from continuing operations** | | | |
| Sale of goods | | **90,944** | **73,873** |
| Interest income | | **72** | **72** |
| **Total Revenue** | | **91,016** | **73,945** |
| **Expenses** | | | |
| Amortisation of prepaid royalty | 15 | **322** | **322** |
| Depreciation expense | | **1,959** | **1,658** |
| Distribution costs | | **3,389** | **2,785** |
| Employee benefits expense | | **16,189** | **14,080** |
| Finance costs | 4 | **695** | **708** |
| Occupancy costs | | **2,992** | **2,465** |
| Other expenses from ordinary activities | | **5,594** | **4,947** |
| Raw materials and consumables used | | **52,714** | **43,900** |
| **Total Expenses** | | **83,854** | **70,865** |
| **Profit before income tax from continuing operations** | | **7,162** | **3,080** |
| Income tax expense | 5 | **(2,085)** | **(817)** |
| **Profit after tax expense for the year** | | **5,077** | **2,263** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income for the year** | | **5,077** | **2,263** |
| **Earnings per share (cents per share)** | | | |
| - Basic earnings per share | 6 | **4.11** | **1.90** |
| - Diluted earnings per share | 6 | **4.11** | **1.90** |

*The above statements should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Financial Position

As at 30 June 2010

| | Notes | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **2,071** | **2,175** |
| Trade and other receivables | 10 | **15,301** | **12,547** |
| Inventories | 11 | **11,074** | **7,622** |
| Prepayments | 15 | **1,095** | **766** |
| **Total current assets** | | **29,541** | **23,110** |
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **11,930** | **9,846** |
| Intangible assets | 13 | **44,477** | **38,195** |
| Deferred tax assets | 14 | **805** | **635** |
| Prepayments | 15 | **1,317** | **1,639** |
| **Total non-current assets** | | **58,529** | **50,315** |
| **TOTAL ASSETS** | | **88,070** | **73,425** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | **11,717** | **9,933** |
| Borrowings | 18 | **1,503** | **1,568** |
| Provisions | 19 | **1,837** | **1,547** |
| Current tax liabilities | 5 | **1,536** | **315** |
| **Total current liabilities** | | **16,593** | **13,363** |
| **Non-current liabilities** | | | |
| Provisions | 19 | **437** | **404** |
| Borrowings | 18 | **13,186** | **8,964** |
| **Total non-current liabilities** | | **13,623** | **9,368** |
| **TOTAL LIABILITIES** | | **30,216** | **22,731** |
| **NET ASSETS** | | **57,854** | **50,694** |
| **EQUITY** | | | |
| Issued Capital | 20 | **52,057** | **48,154** |
| Reserves | | **30** | **20** |
| Retained earnings | | **5,767** | **2,520** |
| **TOTAL EQUITY** | | **57,854** | **50,694** |

*The above statement of financial position should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Cash Flows

For the year to 30 June 2010

| | Notes | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 90,509 | 73,326 |
| Payments to suppliers and employees | | (85,433) | (69,090) |
| Interest received | | 72 | 72 |
| Finance costs | | (673) | (699) |
| Income tax paid | | (984) | (797) |
| **Net cash flows provided by/(used in) operating activities** | 9 | 3,491 | 2,812 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (3,038) | (2,320) |
| Proceeds from sale of property, plant and equipment | | 232 | 155 |
| Payments for controlled entities net of cash | | (4,945) | - |
| Payments for unincorporated business net of cash acquired | | (1,373) | (2,227) |
| **Net cash flows used in investing activities** | | (9,124) | (4,392) |
| **Cash flows from financing activities** | | | |
| Payment of hire purchase and finance lease liabilities | | (1,853) | (1,327) |
| Finance leases raised | | 2,079 | 1,678 |
| Proceeds from borrowing | | 3,230 | 1,477 |
| Proceeds from issue of shares | | 2,533 | - |
| Dividend paid | | (459) | (637) |
| **Net cash flows provided/(used in) by financing activities** | | 5,530 | 1,191 |
| Net increase/(decrease) in cash and cash equivalents | | (103) | (388) |
| Cash and cash equivalents at beginning of financial year | | 2,174 | 2,563 |
| **Cash and cash equivalents at end of financial year** | 8 | 2,071 | 2,174 |
| Non-cash financing transactions | | | |
| Hire purchase and finance lease liabilities raised | | 2,079 | 1,678 |
| Issue of shares for dividend re-investment plan | | 1,371 | 548 |

*The above statements should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Changes in Equity

For the year to 30 June 2010

| | Issued capital $000's | Retained earnings $000's | Option reserve $000's | Total equity $000's |
|---|---|---|---|---|
| **Consolidated** | | | | |
| **Balance as at 1 July 2008** | **47,606** | **1,442** | **9** | **49,057** |
| Issue of shares for dividend re-investment plan | 548 | - | - | 548 |
| Dividend paid | - | (1,185) | - | (1,185) |
| Recognition of share based payments | - | - | 11 | 11 |
| Total comprehensive income for the year | - | 2,263 | - | 2,263 |
| **Balance as at 30 June 2009** | **48,154** | **2,520** | **20** | **50,694** |
| Issue of shares for dividend re-investment plan | 1,371 | - | - | 1,371 |
| Dividend paid | - | (1,830) | - | (1,830) |
| Shares issued to Creative Packaging vendors | 2,532 | - | - | 2,532 |
| Recognition of share based payments | - | - | 10 | 10 |
| Total comprehensive income for the year | - | 5,077 | - | 5,077 |
| **Balance as at 30 June 2010** | **52,057** | **5,767** | **30** | **57,854** |

*The above statement should be read in conjunction with the accompanying notes.*

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 1: Corporate Information

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2010 was approved for issue in accordance with a resolution of the Directors on 27 September 2010.

Pro-Pac Packaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### Comparatives

Comparative figures have been adjusted where necessary to conform to changes in the presentation for the current financial year where required by accounting standards or as a result of changes in accounting policies.

## Note 2: Summary of Significant Accounting Policies

### (a) New, revised or amending Standards and Interpretations

The consolidated entity has adopted all of the new, revised or amending Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant and effective for the current reporting period.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Standards and Interpretations are most relevant to the consolidated entity:

***AASB 101 Presentation of Financial Statements ('AASB 101')***

The consolidated entity has applied the revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the statement of comprehensive income and all non-owner changes in equity. As a result, the consolidated entity now presents all owner changes in the statement of changes in equity. The statement of financial position is now referred to as the statement of financial position. There is a requirement to present a third statement of financial position if there is restatement of comparatives through either a correction of error, change in accounting policy or a reclassification. The statement of cash flow is now referred to as the statement of cash flows.

***AASB 3 Business Combinations ('AASB 3')***

The consolidated entity has applied the revised AASB 3 for all new business combinations acquired on or after 1 July 2009. As well as the expensing of transaction costs and minority interest now being referred to as non-controlling interest, there are a number of significant changes - refer to the 'business combinations' accounting policy for further details.

***AASB 127 Consolidated and Separate Financial Statements ('AASB 127')***

The consolidated entity has applied the revised AASB 127 from 1 July 2009. The revised standard requires changes in ownership interest of a subsidiary without a change in control to be accounted for as a transaction with owners in their capacity as owners. It also changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary - refer to the 'principles of consolidation' accounting policy for further details.

***AASB 2008 -7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate***

This amendment is applicable from 1 July 2009 and removes references to the cost method. The distinction between pre and post acquisition profits is no longer relevant as all dividends are now recognised in profit or loss - refer to the 'principles of consolidation' accounting policy for further details.

***AASB 7 Financial Instruments: Disclosure ('AASB 7')***

This amended standard is applicable from 1 July 2009 and requires additional disclosure about fair value measurement of financial instruments, using a three level fair value hierarchy. The amendments also clarify the disclosure requirements about liquidity risks for derivative transactions and assets used for liquidly management.

***AASB 8 Operating Segments ('AASB 8')***

The consolidated entity has applied AASB 8, which replaces AASB 114 'Segment Reporting', from 1 July 2009. AASB 8 requires a management approach to segment reporting based on the information reported internally. Refer to note 3.

### (b) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the Corporations Act 2001. The financial report has also been prepared on an accruals basis and is based on historical costs. The financial report is presented in Australian dollars.

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only, supplementary information about the parent entity are disclosed in note 28.

### (c) Statement of compliance

The financial report complies with Australian Accounting Standards. This ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards.

### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro-Pac Packaging Limited and its subsidiaries as at 30 June 2010.

A list of controlled entities is contained in Note 23 to the Financial Statements.

The financial statements of subsidiaries are prepared for the reporting year ended 30 June 2010 using accounting policies consistent with the parent entity.

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All inter-company balances and transactions, including unrealised profits or losses arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Pro-Pac Packaging Limited had control.

### (e) Business combinations

***Change in accounting policy from 1 July 2009***

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

The change in accounting policy has been applied prospectively.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 2: Summary of Significant Accounting Policies (cont.)

### (f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation. Plant and equipment is depreciated using the straight line and diminishing value methods over the estimated useful lives.

The current depreciation rates are over 3 to 20 years.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is de-recognised.

***Impairment***

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### (g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

### (h) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

### (i) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

### (j) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis.
- Finished goods and work-in-progress – cost of direct materials and direct labour and a proportion of manufacturing overheads based on normal operating capacity.

### (k) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

### (l) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (m) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

### (o) Equity-settled compensation

The group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase in an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black-Scholes model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### (p) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property, without transferring the legal ownership, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

Where assets are acquired by means of finance leases, the present value of minimum lease payments is established as an asset at the beginning of the lease term and amortised on a straight line basis over the expected economic life. A corresponding liability is also established and each lease payment is allocated between such liability and interest expense. Operating lease payments are charged to expense on a basis which is representative of the pattern of benefits derived from the leased property.

### (q) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

***Sale of goods***
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

***Interest***
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

***Dividends***
Revenue is recognised when the shareholders' right to receive the payment is established.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 2: Summary of Significant Accounting Policies (cont.)

### (r) Income tax

The income tax expense (revenue) for the year comprises current income tax (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in the deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets are expected to be recovered or settled.

Pro-Pac Packaging Ltd (the "head entity") and its wholly owned Australian controlled entities have formed a tax consolidated group under the tax consolidated regime. Each entity in the Group recognizes its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity.

### (s) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the Statement of cash flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (t) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

### (u) Financial Instruments

***Recognition***
Financial instruments are initially measured at cost on trade date, which includes transactions costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

***Loans and receivables***
Loans and receivables are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

***Financial liabilities***
Non-derivate financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### (v) Foreign Currency Transactions and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

### (w) Critical Accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

***Key estimates***

(i) Impairment
The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value in-use calculations which incorporate various key assumptions.

No impairment is considered necessary in respect of goodwill based on key estimates used in assessing recoverable amounts.

***Key Judgements***

(i) Provision for impairment of receivables
Current trade and term receivables are non-interest bearing loans and generally on 30-60 days terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses from ordinary activities item.

## Note 3: Segment Information

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- The products sold and/or services provided by the segment;
- The manufacturing process.

### Types of products and services by segment

***Industrial packaging***
The Industrial packaging division manufactures, sources and distributes industrial packaging materials and related products and services. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are distributed to similar types of customers. The industrial packaging segment also installs, supports and maintains packaging machines.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 3: Segment Information (cont.)

***Rigid packaging***

The Rigid packaging division manufactures, sources and distributes containers and closures and related products and services. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are manufactured and distributed to similar types of customers.

### Basis of accounting for purposes of reporting by operating segments

***Accounting policies adopted***

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

***Inter-segment transactions***

An internally determined transfer price is set for all inter-entity sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation for the Group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

***Segment Assets***

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the assets role, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

***Segment Liabilities***

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain borrowings.

***Unallocated items***

The following items of revenue, expenses, asset and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- impairment of assets and other non-recurring revenue or expenses;
- income tax expense;
- deferred tax asset and liabilities;
- current tax liabilities;
- other financial liabilities;
- intangible assets.

## Note 3: Segment Information (cont.)

***Comparative information***

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

| | Rigid packaging $000's | Industrial packaging $000's | Total $000's |
|---|---|---|---|
| **(i) Segment performance** | | | |
| **Twelve months ended 30.06.2010** | | | |
| **Revenue** | | | |
| External sales | 46,917 | 44,027 | 90,944 |
| Inter-segment sales | 6,910 | 2,458 | 9,368 |
| **Total segment revenue** | 53,827 | 46,485 | 100,312 |
| *Reconciliation of segment revenue to group revenue* | | | |
| Interest Income | | | 72 |
| Inter-segment elimination | | | (9,368) |
| **Total group revenue** | | | 91,016 |
| **Segment net profit before tax** | 5,658 | 3,870 | 9,528 |
| *Reconciliation of segment result to group net profit before tax* | | | |
| Amounts not included in segment result but reviewed by the Board: | | | |
| Unallocated items: | | | |
| * Corporate and finance charges | | | (994) |
| * Head office costs | | | (1,286) |
| * Inter-segment elimination | | | (86) |
| **Net profit before tax from continuing operations** | | | 7,162 |
| **Twelve months ended 30.06.2009** | | | |
| **Revenue** | | | |
| External sales | 43,094 | 30,779 | 73,873 |
| Inter-segment sales | 5,306 | 1,958 | 7,264 |
| **Total segment revenue** | 48,400 | 32,737 | 81,137 |
| *Reconciliation of segment revenue to group revenue* | | | |
| Interest Income | | | 72 |
| **Inter-segment elimination** | | | (7,264) |
| **Total group revenue** | | | 73,945 |
| **Segment net profit before tax** | 4,031 | 1,550 | 5,581 |
| *Reconciliation of segment result to group net profit before tax* | | | |
| Amounts not included in segment result but reviewed by the Board: | | | |
| Unallocated items: | | | |
| * Corporate and finance charges | | | (1,164) |
| * Head office costs | | | (1,325) |
| * Inter-segment elimination | | | (12) |
| **Net profit before tax from continuing operations** | | | 3,080 |

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 3: Segment Information (cont.)

| | Rigid packaging $000's | Industrial packaging $000's | Total $000's |
|---|---|---|---|
| **As at 30.06.2010** | | | |
| **(ii) Segment assets** | **20,732** | **20,449** | **41,181** |
| *Reconciliation of segment assets to group assets* | | | |
| Inter-segment eliminations | | | **(1,786)** |
| Unallocated assets | | | **48,675** |
| * Deferred tax assets | | | **805** |
| * Intangibles | | | **44,477** |
| * Other | | | **3,393** |
| **Total group assets from continuing operations** | | | **88,070** |
| **Segment assets** | **19,643** | **13,605** | **33,248** |
| *Reconciliation of segment assets to group assets* | | | |
| Inter-segment eliminations | | | **(2,476)** |
| Unallocated assets | | | **42,653** |
| * Deferred tax assets | | | **635** |
| * Intangibles | | | **38,195** |
| * Other | | | **3,823** |
| **Total group assets from continuing operations** | | | **73,425** |
| **As at 30.06.2010** | | | |
| **(iii) Segment liabilities** | **10,663** | **9,012** | **19,675** |
| *Reconciliation of segment liabilities to group liabilities* | | | |
| Inter-segment eliminations | | | **(1,630)** |
| Unallocated liabilities | | | **12,171** |
| * Deferred tax liabilities | | | **-** |
| * Other liabilities | | | **12,171** |
| **Total group liabilities from continuing operations** | | | **30,216** |
| **As at 30.06.2009** | | | |
| **Segment liabilities** | **10,299** | **7,124** | **17,423** |
| *Reconciliation of segment liabilities to group liabilities* | | | |
| Inter-segment eliminations | | | **(2,408)** |
| Unallocated liabilities | | | **7,716** |
| * Deferred tax liabilities | | | **-** |
| * Other liabilities | | | **7,716** |
| **Total group liabilities from continuing operations** | | | **22,731** |

**(iv) The Group operates solely within Australia. As such there is only one geographical segment.**

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 4: Expenses

| | | |
|---|---|---|
| Finance costs | 695 | 708 |
| Bad and doubtful debt – trade | 99 | 189 |
| Rental expense on operating leases: | | |
| - minimum lease payments | 2,769 | 2,386 |
| Write down of inventories to net realisable value | 313 | 145 |

## Note 5: Income Tax

Major components of income tax for the year ended 30 June are:

| | | |
|---|---|---|
| **Statement of comprehensive income** | | |
| ***Current income tax*** | | |
| Current income tax charge/(refund) | 2,255 | 901 |
| Adjustments in respect of previous years | - | (50) |
| ***Deferred income tax*** | | |
| Relating to temporary differences | (170) | (34) |
| Income tax expense/(refund) in statement of comprehensive income | 2,085 | 817 |

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 30 June 2010 is as follows:

| | | |
|---|---|---|
| Accounting profit before tax | 7,162 | 3,080 |
| At the statutory income tax rate of 30% | 2,149 | 924 |
| Special tax allowances net of expenditure not allowable for tax purposes | (64) | (57) |
| Adjustments in respect of previous years | - | (50) |
| At effective income tax rate of 29.1% (2009: 26.5%) | 2,085 | 817 |
| **Income tax expense reported in statement of comprehensive income** | **2,085** | **817** |

***Tax consolidation***

The Financial report has been prepared on the basis that the Group has adopted the provisions of the tax consolidation regime for the years ended 30 June 2010 and 30 June 2009.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 6: Earnings Per Share

Basic and diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period.

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

| | Consolidated 2010 | Consolidated 2009 |
|---|---|---|
| Net profit attributable to equity holders ($000's) | 5,077 | 2,263 |
| Weighted average number of ordinary shares for basic earnings per share | 123,505,913 | 119,011,351 |
| Basic earnings per share (cents per share) * | 4.11 | 1.90 |
| Diluted earnings per share (cents per share) * | 4.11 | 1.90 |

* The difference between basic and diluted shares on issue represents the PPG Executive Long Term Incentive Plan shares on issue which are treated as an option grant. As the average exercise price of the options was higher than the average market price per share during both the current and prior years, the options would not have been exercised and therefore no dilution has occurred.

## Note 7: Dividends Paid and Proposed

On 17 August 2010, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlements to the dividend was 8 September 2010 and the dividend will be paid on 22 October 2010. The Company's Dividend Reinvestment Plan was applied to the final dividend. When combined with PPG's interim dividend of 1.0 cent, paid on 9 April 2010, this brings total fully franked dividends for the 2009/10 financial year to 2.0 cents per share.

### Franking credit balance

As indicated in note 5, the financial report has been prepared on the basis that the group has adopted the provisions of the tax consolidation regime for the years ended 30 June 2010 and 30 June 2009. As such franking credits arising from the other Group companies totalling $9,016,823 (2009: $8,585,311) will be available to the parent entity.

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Franking credits available at the reporting date based on a tax rate of 30% | 8,585 | 8,390 |
| Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30% | 1,215 | 709 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 9,800 | 9,099 |
| Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30% | (784) | (514) |
| Net franking credits available based on a tax rate of 30% | 9,016 | 8,585 |

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 8: Cash and Cash Equivalents

| | | |
|---|---|---|
| Cash at bank and in hand | 2,071 | 2,175 |
| Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates | | |
| The fair value of cash and cash equivalents | 2,071 | 2,175 |
| **Reconciliation of cash** | | |
| For the purposes of the Statement of cash flow, cash and cash equivalents comprise the following at 30 June: | | |
| Cash at bank and in hand | 2,071 | 2,175 |

## Note 9: Cash Flow Information

**a) Reconciliation from the net profit after tax to the net cash flows from operations**

| | | |
|---|---|---|
| Net profit after tax | 5,077 | 2,263 |
| **Add/(Less) non-cash items:** | | |
| Depreciation and amortisation of plant and equipment | 1,959 | 1,658 |
| Amortisation of pre paid royalty | 322 | 322 |
| (Profit)/Loss on disposal of assets | 31 | (5) |
| Movement in income tax provision | 1,272 | 54 |
| Movement in deferred tax assets & liabilities | (170) | (35) |
| Movement in provision for bad debts | (60) | 97 |
| Other non-cash movements | 10 | 20 |
| **Changes in assets and liabilities:** | | |
| Receivables | (1,152) | (1,106) |
| Inventories | (2,927) | (853) |
| Payables | (861) | 231 |
| Provisions | 231 | 330 |
| Prepayments | (241) | (164) |
| **Net cash flows from operating activities** | **3,491** | **2,812** |

**b) Non-cash financing and investing activities**

1. During the year, the company issued shares to the value of $1,370,250 (2009: $548,190) in terms of the dividend reinvestment plan.
2. During the year, the consolidated Group acquired plant with an aggregate value of $2,079,290 (2009: $1,678,307) by means of finance leases. These acquisitions are not reflected in the statement of cash flow.

**c) Credit standby arrangements with banks**

| | | |
|---|---|---|
| ***Credit facility*** | 1,300 | 1,050 |
| Amount utilised | - | 270 |
| ***Loan facilities*** | 16,000 | 12,000 |
| Amount utilised | 10,532 | 7,009 |

# Notes to the Financial Statements

For the year to 30 June 2010

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 10: Trade and Other Receivables

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **Current:** | | |
| Trade receivables | **15,044** | **12,424** |
| Provision for impairment of receivables | **(191)** | **(199)** |
| Other debtors | **448** | **322** |
| **Total current receivables** | **15,301** | **12,547** |

Trade receivables are non-interest bearing and are generally on terms between 30 and 60 days.

### Credit risk – Trade and Other Receivables

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled, with the terms and conditions as agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trading terms (as detailed in the table) are considered to be of high credit quality.

| | Gross amount $000's | Past due & impaired $000's | Past due but not impaired > 90 $000's | Past due but not impaired 61 - 90 $000's | Within initial trade terms $000's |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| **2010** | | | | | |
| Trade and term receivables | **15,044** | **191** | **106** | **892** | **13,855** |
| Other receivables | **448** | **-** | **-** | **-** | **488** |
| **Total** | **15,492** | **191** | **106** | **892** | **14,343** |
| **2009** | | | | | |
| Trade and term receivables | **12,424** | **199** | **22** | **976** | **11,227** |
| Other receivables | **322** | **-** | **-** | **-** | **322** |
| **Total** | **12,746** | **199** | **22** | **976** | **11,549** |

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 11: Inventories

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| Raw materials (lower of cost and net realisable value) | **801** | **831** |
| Finished goods (lower of cost and net realisable value) | **10,273** | **6,791** |
| Total inventories at lower of cost and net realisable value | **11,074** | **7,622** |

## Note 12: Property, Plant and Equipment

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **At 30 June** | | |
| Plant and equipment | | |
| At cost | **16,627** | **12,854** |
| Accumulated depreciation | **(4,823)** | **(3,243)** |
| | **11,804** | **9,611** |
| Leased plant and equipment | | |
| Capitalised leased plant and equipment | **217** | **368** |
| Accumulated depreciation | **(91)** | **(133)** |
| | **126** | **235** |
| Total property, plant and equipment | **11,930** | **9,846** |

(a) Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Consolidated 2010 $000's | Consolidated 2010 $000's | Consolidated 2010 $000's |
|---|---|---|---|
| | **Owned** | **Leased** | **Total** |
| Balance at the beginning of the year | **9,611** | **235** | **9,846** |
| Additions arising from acquisitions | **1,358** | **-** | **1,358** |
| Additions | **2,888** | **60** | **2,948** |
| Disposals | **(263)** | **-** | **(263)** |
| Reclassifications | **90** | **(90)** | **-** |
| Depreciation charge for the year | **(1,880)** | **(79)** | **(1,959)** |
| Carrying amount at the end of the year | **11,804** | **126** | **11,930** |

# Notes to the Financial Statements

For the year to 30 June 2010

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 13: Intangible Assets

| | | |
|---|---|---|
| **Goodwill** | | |
| Carrying amount at beginning of the year | **38,195** | **36,785** |
| Acquisition through business combinations | **6,282** | **1,410** |
| Closing value | **44,477** | **38,195** |
| **At 30 June** | | |
| Gross | **44,477** | **38,195** |
| Accumulated impairment losses | **-** | **-** |
| Net carrying value | **44,477** | **38,195** |

***Impairment Test for Goodwill***

The Group and all of its subsidiaries are divided into two major cash generating units as these are the smallest groups of identifiable assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated to the cash-generating-units for impairment testing.

The recoverable amount of the cash generating unit has been determined based on a value-in-use calculation. Based on the value-in-use calculations undertaken by management, Goodwill has not been impaired (see note 26).

## Note 14: Deferred Tax Assets

| | | |
|---|---|---|
| **Deferred tax assets** | | |
| Deferred tax assets comprise: | | |
| Provisions and other timing differences | **729** | **552** |
| Transactions costs on equity issue | **76** | **83** |
| | **805** | **635** |
| **Reconciliation of gross movements** | | |
| The overall movement in the deferred tax account is as follows: | | |
| Opening balance | **635** | **600** |
| Charge to statement of comprehensive income | **170** | **35** |
| Closing balance | **805** | **635** |
| **Deferred tax assets** | | |
| The movement in deferred tax assets for each temporary difference during the year is as follows: | | |
| **Provisions and other timing differences at 01 July** | **552** | **527** |
| Reclassification | **-** | **(85)** |
| Credit/(charge) to statement of comprehensive income | **177** | **110** |
| **At 30 June** | **729** | **552** |
| **Transaction cost to equity issue at 01 July** | **83** | **73** |
| Reclassification | **-** | **85** |
| Charge to statement of comprehensive income | **(7)** | **(75)** |
| **At 30 June** | **76** | **83** |

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **Note 15: Prepayments** | | |
| **(a) Current prepayments** | | |
| Other prepayments | 773 | 444 |
| Prepaid royalty | 322 | 322 |
| **Total current prepayments** | **1,095** | **766** |
| **(b) Non-current prepayments** | | |
| Prepaid royalty | 1,317 | 1,639 |
| **Total non-current prepayments** | **1,317** | **1,639** |

### Prepayment of royalty

The prepayment of the royalty is amortised over the remaining period of the exclusive licence to manufacture and distribute biodegradable flowable void fill products. The prepaid royalty amortised for the year ended 30 June 2010 amounted to $322,082 (2009: $322,082).

## Note 16: Employee Benefits

### Executive Long Term Incentive Plan

In March 2005 the Company established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act.

The following are the key terms and conditions of the ESPP:

- No Shares under the ESPP will be allotted unless the requirements of the Corporations Act 2001 and the ASX Listing Rules have been complied with.
- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of the ESPP is 3 years.
- The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares would be surrendered in full settlement of the outstanding loan balance.
- During the year, no further shares were issued to staff and executives under the ESPP. At the end of the year 550,000 shares were in issue under the ESPP.
- No other features of the benefit provided (including vesting conditions) were incorporated into the measurement of fair value.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 16: Employee Benefits (cont.)

- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions: expected volatility, risk-free interest rate, expected life of option, share price, dividend yield and probability of achievement.
- Under Australian Accounting Standards, shares issued to executives under the Long Term Executive Incentive Plan are now considered to be options granted. As such, the contributed equity (share capital) as well as the related receivable are not recognised on the statement of financial position and do not form part of the asset base in the calculation of the basic net assets and basic net tangible assets per security. Comparative figures for the prior financial year have been adjusted accordingly.

## Note 17: Trade and Other Payables

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| Unsecured: | | |
| Trade payables | **9,326** | **8,176** |
| GST payable | **423** | **422** |
| Other tax payable | **218** | **243** |
| Sundry creditors and accruals | **1,750** | **1,092** |
| | **11,717** | **9,933** |

All payables are non-interest bearing and are normally settled on 60 day terms. The net of GST payable and GST receivable is remitted to the appropriate tax body on a quarterly basis.

## Note 18: Interest Bearing Loans and Borrowings

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **Current** | | |
| Finance lease and hire purchase (see note 25) | **1,503** | **1,298** |
| Bank loan (secured) | **-** | **270** |
| | **1,503** | **1,568** |
| **Non-current** | | |
| Finance lease & hire purchase (see note 25) | **2,654** | **1,955** |
| Bank loan (secured) | **10,532** | **7,009** |
| | **13,186** | **8,964** |

a) The bank loan is secured as follows:
   i) first ranking registered equitable mortgage over Pro-Pac Packaging Limited and all wholly owned subsidiaries;
   ii) cross interlocking guarantees from Pro-Pac Packaging Limited and all wholly owned subsidiaries.

b) The bank loan is subject to the following covenants:
   i) it will ensure that for each 2 consecutive reporting periods ending 30 June and 31 December, the ratio of EBITDA to total debt service will not fall below 2.00:1 and further ensure that the ratio of EBITDA to total debt service will not fall below 1.5:1 for any 6 month reporting period
   ii) it will ensure that for each preceding 12 calendar month period the ratio of total senior debt to EBITDA does not exceed 3.00:1; and
   iii) it will ensure that for each 6 month period ending 30 June and 31 December, the ratio of total tangible assets to total senior debt will not fall below 1.45:1.

c) The bank loan facility is subject to review on 31 August 2011.

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|

## Note 19: Provisions

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **Current** | | |
| Employee entitlements | | |
| Opening balance | 1,547 | 1,195 |
| Arising on acquisition of business combinations | 71 | 77 |
| Additional provisions | 1,184 | 1,100 |
| Amount used | (965) | (825) |
| Closing balance | 1,837 | 1,547 |
| **Non-current** | | |
| Employee entitlements | | |
| Opening balance | 404 | 311 |
| Arising on acquisition of business combinations | 21 | 39 |
| Additional provisions | 116 | 71 |
| Amount used | (104) | (17) |
| Closing balance | 437 | 404 |

## Note 20: Issued Capital

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| **Ordinary shares** | | |
| Issued and fully paid | 52,057 | 48,154 |

| Movement in ordinary shares on issue | Number | $000's |
|---|---|---|
| **Balance at 1 July 2008** | 120,027,989 | 47,606 |
| Cancellation of shares for Executive Long Term Incentive Plan | (1,480,000) | - |
| Issue of shares for dividend re-investment plan | 1,612,311 | 548 |
| **Balance at 30 June 2009** | 120,160,300 | 48,154 |
| Shares issued to Creative Packaging vendors | 7,235,712 | 2,533 |
| Issue of shares for dividend re-investment plan | 5,747,000 | 1,370 |
| **Balance at 30 June 2010** | 133,143,012 | 52,057 |

There was no par value for the shares issued. The company has an Executive Long Term Incentive Plan under which the company's shares have been granted (refer note 16).

**Share buy-back**

There is no current on-market share buy-back.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 20: Issued Capital (cont.)

**Capital risk management**

The consolidated entity's and parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity and parent entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity and parent entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity and parent entity are not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity and parent entity are subject to certain financing arrangements covenants and meeting these are given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2009 Annual Report.

## Note 21: Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

***Interest rate risk***

The Group's exposure to interest rate risk is limited to interest receivable and payable on bank accounts and drawn down bank loans. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. All cash balances are at call and the average interest rate on the deposits is 4.5%.

***Foreign currency risk***

The Group has transactional currency exposures. Such exposure arises from purchases by the operating unit in currencies other than the unit's measurement currency which accounted for 15.7% of purchases of materials and capital items. Forward contracts are used to manage foreign currency risk.

***Commodity price risk***

The Group's exposure to commodity price risk is relatively low although certain petrochemical based products are affected by the oil price.

***Credit risk***

The Group has policies in place to ensure that customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. There are no significant concentrations of credit risk within the Group

***Liquidity risk***

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and finance leases and hire purchase contracts.

## Note 22: Financial Instruments

***Fair values***

There are no financial instruments that are carried in the financial statements at other than fair values.

***Interest rate risk***

The following table sets out the interest rates applicable to financial instruments that are exposed to interest rate risk:

| | Floating interest rate | Fixed interest rate | Non-interest bearing | Total carrying amount per the statement of financial position | Weighted average interest rate |
|---|---|---|---|---|---|
| | 2010 $000's | 2010 $000's | 2010 $000's | 2010 $000's | 2010 % |
| **Consolidated** | | | | | |
| (i) Financial assets | | | | | |
| Cash assets | **2,062** | **-** | **9** | **2,071** | **4.5** |
| Receivables | **-** | **-** | **15,301** | **15,301** | |
| Total financial assets | **2,062** | **-** | **15,310** | **17,372** | |
| (ii) Financial liabilities | | | | | |
| Finance leases (current) | **-** | **1,503** | **-** | **1,503** | **9.7** |
| Finance leases (non-current) | **-** | **2,654** | **-** | **2,654** | **9.7** |
| Bank loans (current) | **-** | **-** | **-** | **-** | |
| Bank loans (non-current) | **10,532** | **-** | **-** | **10,532** | **6.9** |
| Payables (current) | **-** | **-** | **11,717** | **11,717** | |
| Total financial liabilities | **10,532** | **4,157** | **11,717** | **26,406** | |
| Net financial assets/(liabilities) | **(8,470)** | **(4,157)** | **3,593** | **(9,034)** | |

There is no interest rate applicable on receivables or payables.

| | 2009 $000's | 2009 $000's | 2009 $000's | 2009 $000's | 2009 % |
|---|---|---|---|---|---|
| **Consolidated** | | | | | |
| (i) Financial assets | | | | | |
| Cash assets | **2,167** | **-** | **7** | **2,174** | **3.5** |
| Receivables | **-** | **-** | **12,547** | **12,547** | |
| Total financial assets | **2,167** | **-** | **12,554** | **14,721** | |
| (ii) Financial liabilities | | | | | |
| Finance leases (current) | **-** | **1,298** | **-** | **1,298** | **8.6** |
| Finance leases (non-current) | **-** | **1,955** | **-** | **1,955** | **8.6** |
| Bank loans (current) | **270** | **-** | **-** | **270** | **5.2** |
| Bank loans (non-current) | **7,009** | **-** | **-** | **7,009** | **5.2** |
| Payables (current) | **-** | **-** | **9,933** | **9,933** | |
| Total financial liabilities | **7,279** | **3,253** | **9,933** | **20,465** | |
| Net financial assets/(liabilities) | **(5,112)** | **(3,253)** | **2,621** | **(5,744)** | |

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 22: Financial Instruments (cont.)

The following table sets out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk:

| Year ended 30 June 2010 | < 1 year $000's | >1 - <2 years $000's | >2 - <3 years $000's | >3 - <4 years $000's | >4 - <5 years $000's | > 5 years $000's | Total $000's |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| Cash assets | **2,062** | **-** | **-** | **-** | **-** | **-** | **2,062** |
| Finance leases | **1,503** | **1,218** | **752** | **442** | **242** | **-** | **4,157** |
| Bank loans | **-** | **10,532** | **-** | **-** | **-** | **-** | **10,532** |

| Year ended 30 June 2009 | < 1 year $000's | >1 - <2 years $000's | >2 - <3 years $000's | >3 - <4 years $000's | >4 - <5 years $000's | > 5 years $000's | Total $000's |
|---|---|---|---|---|---|---|---|
| **Consolidated** | | | | | | | |
| Cash assets | **2,167** | **-** | **-** | **-** | **-** | **-** | **2,167** |
| Finance leases | **1,299** | **965** | **640** | **287** | **62** | **-** | **3,253** |
| Bank loans | **270** | **7,009** | **-** | **-** | **-** | **-** | **7,279** |

The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

### Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at reporting date would have been affected by changes in the relevant risk variable that managers considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

| | Consolidated Profit $000's | Consolidated Equity $000's |
|---|---|---|
| **2010** | | |
| +/- 1% in interest rates | **+/- 88** | **+/- 88** |
| +/- 10% in AUD/USD | **+/- 742** | **+/- 742** |
| **2009** | | |
| +/- 1% in interest rates | **+/- 74** | **+/- 74** |
| +/- 10% in AUD/USD | **+/- 292** | **+/- 292** |

## Note 23: Controlled Entities

The consolidated entity includes the following controlled entities. The financial years of all controlled entities are the same as that of the parent entity. All companies are incorporated in Australia.

| | Country of Incorporation | Class of Shares | Equity Holding |
|---|---|---|---|
| **Direct Controlled Entities:** | | | |
| Pro-Pac Group Pty Ltd | Australia | Ordinary | 100% |
| Plastic Bottles Pty Ltd | Australia | Ordinary | 100% |
| **Controlled Entities owned 100% by Pro-Pac Group Pty Ltd** | | | |
| Pro-Pac Packaging (Aust) Pty Ltd | Australia | Ordinary | 100% |
| Pro-Pac (GLP) Pty Ltd | Australia | Ordinary | 100% |
| **Controlled Entities owned 100% by Plastic Bottles Pty Ltd** | | | |
| Speciality Products and Dispensers Pty Ltd | Australia | Ordinary | 100% |
| Australian Bottle Manufacturers Pty Ltd | Australia | Ordinary | 100% |
| Ctech Closures Pty Ltd | Australia | Ordinary | 100% |
| Bev Cap Pty Ltd | Australia | Ordinary | 100% |
| **Controlled Entities owned 100% by Pro-Pac Packaging (Aust) Pty Ltd** | | | |
| Pro-Pac Packaging Manufacturing (Syd) Pty Ltd | Australia | Ordinary | 100% |
| Pro-Pac Packaging Manufacturing (Melb) Pty Ltd | Australia | Ordinary | 100% |
| Pro-Pac Packaging Manufacturing (Bris) Pty Ltd | Australia | Ordinary | 100% |
| Creative Packaging Pty Ltd | Australia | Ordinary | 100% |
| **Controlled Entities owned 100% by Bev Cap Pty Ltd** | | | |
| Great Lakes Moulding Pty Ltd | Australia | Ordinary | 100% |
| Finpact (Pty) Ltd | Australia | Ordinary | 100% |

Entities subject to class order relief

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Pro-Pac Packaging Limited
Plastic Bottles Pty Ltd
Pro-Pac Group Pty Ltd
Pro-Pac Packaging (Aust) Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

## Note 24: Business Combinations

### Acquisition of businesses

The following complimentary and synergistic businesses were acquired during the year.

Effective 1 March 2010, Pro-Pac Packaging (Aust) Pty Ltd (PPA), a wholly owned subsidiary, acquired all of the issued equity of Queensland-based Creative Packaging Pty Ltd a manufacturer, converter and distributor of corrugated products, settlement of which comprised both cash and issue of Pro-Pac Packaging Limited (PPG) shares. Part of the purchase consideration included a deferred payment contingent upon both a profit target and the PPG share price. The maximum undiscounted amount payable would be $600,000.

Effective 16 June 2010, PPA acquired the business and assets of Ruscon Plastics Pty Ltd, a Melbourne based film extruder for a cash consideration.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 24: Business Combinations (cont.)

The effect of the above transactions can be summarised as follows:

| | Fair Value $000's |
|---|---|
| **Assets** | |
| **Current Assets** | |
| Cash and cash equivalents | 19 |
| Trade and other receivables | 1,683 |
| Inventories | 525 |
| **Total Current Assets** | **2,227** |
| **Non-Current Assets** | |
| Property, plant and equipment | 1,358 |
| **Total Non-Current Assets** | **1,358** |
| **Total Assets** | **3,585** |
| **Liabilities** | |
| **Current Liabilities** | |
| Trade and other payables | 3,043 |
| **Total Current Liabilities** | **3,043** |
| **Non-Current Liabilities** | |
| Other liabilities | 209 |
| **Total Non-Current Liabilities** | **209** |
| **Total Liabilities** | **3,252** |
| **NET ASSETS** | **333** |
| **Acquisition date fair value of total consideration paid** | |
| Cash | 3,836 |
| Securities | 2,532 |
| Present value of deferred consideration | 247 |
| **Total** | **6,615** |
| **GOODWILL** | **6,282** |

Profit of the Creative Packaging business included in the consolidated profit of the Group since their respective acquisition dates amounted to $154,603. Had this business been consolidated from 1 July 2009, revenue would have been approximately $97,903,000 and consolidated profit $5,387,000 for the year ended 30 June 2010.

Effective 1 July 2010, Pro-Pac Packaging (Aust) Pty Ltd, acquired the business and assets of Dysher Pty Ltd, trading as Goodman Packaging, a Sydney and Perth based distributor of industrial packaging products with a current annualised turnover of approximately $6.5m. At the time of signing of this report the acquisition accounting had not been finalised.

## Note 25: Commitments and Contingencies

### Operating lease commitments – Group as lessee

The Group has entered into commercial leases which are non-cancellable. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. Renewals are at the option of the specific entity that holds the lease.

The Group also leases various items of machinery under cancellable operating leases.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | Consolidated 2010 $000's | Consolidated 2009 $000's |
|---|---|---|
| Within one year | **3,180** | **1,886** |
| After one year but not more than five years | **4,556** | **1,721** |
| More than five years | **52** | **-** |
| | **7,788** | **3,607** |

*Figures exclude GST*

### Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

| | 2010 Minimum payments $000's | 2010 Present value of payments $000's | 2009 Minimum payments $ $000's | 2009 Parent value of payments $000's |
|---|---|---|---|---|
| Within one year | **1,806** | **1,503** | **1,512** | **1,298** |
| After one year but not more than five years | **2,973** | **2,654** | **2,145** | **1,955** |
| Total minimum lease payments | **4,779** | **4,157** | **3,657** | **3,253** |
| Less amounts representing future finance charges | **(622)** | **-** | **(404)** | **-** |
| Present value of minimum lease payments | **4,157** | **4,157** | **3,253** | **3,253** |

| | 2010 $000's | 2009 $000's |
|---|---|---|
| Representing lease liabilities | | |
| Current | **1,503** | **1,298** |
| Non-current | **2,654** | **1,955** |
| | **4,157** | **3,253** |

The weighted average interest rate implicit in the leases is 9.7%.

# Notes to the Financial Statements

For the year to 30 June 2010

## Note 25: Commitments and Contingencies (cont.)

### Contingent Liability

As at statement of financial position date the Company issued security deposit guarantees to the value of $1,493,573 to the landlords of rented premise.

### Capital Expenditure Commitments

As at statement of financial position date the Company had commitments for future capital expenditure of $273,757.

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **Capital commitments - Property, plant and equipment** | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | **273,557** | **290,582** |
| One to five years | **-** | **-** |
| | **273,757** | **290,582** |

| | $000's | $000's |
|---|---|---|

## Note 26: Impairment Testing of Indefinite Life Goodwill

| | | |
|---|---|---|
| **Carrying amount of goodwill** | | |
| Carrying amount of goodwill Industrial Division | **22,660** | **21,818** |
| Carrying amount of goodwill Rigid Division | **21,817** | **16,377** |
| Total carrying amount of goodwill | **44,477** | **38,195** |

The Group and all of its subsidiaries are divided into two major cash generating units, the industrial and rigid divisions, as these are the smallest groups of identifiable assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated to the cash-generating-units for impairment testing.

The recoverable amount of the consolidated entity's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a one year projection period approved by management and extrapolated for a further 4 years using a steady rate, together with a terminal value.

Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the industrial and rigid divisions:
a) 12.9% pre-tax discount rate;
b) 5% for industrial division and 3% for rigid division per annum projected revenue growth rate;
c) 5% for industrial division and 3% for rigid division per annum increase in operating costs and overheads.

The discount rate of 12.9% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

Projected growth rates are based on historical performance over the last three years and current trends which management believes are achievable during the forecasted period.

## Note 27: Related Party Disclosure

### Parent Entity

Pro-Pac Packaging Limited is the ultimate parent entity of the Group.

### Subsidiaries

Interests in subsidiaries are set out in note 23.

### Transactions with Directors

The Company or members of the Group have entered into the following agreements with the following directors or entities related to them: John Read, Elliott Kaplan, Hadrian Morrall and Brandon Penn.

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| **John Read** | | |
| • Consultation and acquisition services fees paid to CVC Limited (inc GST) | **-** | **44,550** |
| **Hadrian Morrall** | | |
| • Remuneration paid | **219,982** | **206,938** |
| • Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney and Brisbane properties (inc GST) | **790,680** | **732,728** |
| **Brandon Penn** | | |
| • Remuneration paid | **224,184** | **95,683** |
| • Consultation and facilitation services fees paid to the Penn Family Trust (inc GST) | **-** | **58,666** |
| • Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney and Brisbane properties (inc GST) (as shown above) | **790,680** | **732,728** |

Total payments to related parties during the year ended 30 June 2010 was $1,234,846 (2009: $1,138,565).

# Notes to the Financial Statements

For the year to 30 June 2010

| | Parent 2010 $000's | Parent 2009 $000's |
|---|---|---|

## Note 28: Parent Entity Information

Set out below is the supplementary information about the parent entity.

| | Parent 2010 $000's | Parent 2009 $000's |
|---|---|---|
| Profit for the year | **1,814** | 1,158 |
| Total comprehensive income | **1,814** | 1,158 |
| Total current assets | **1,185** | 13 |
| Total assets | **52,361** | 48,666 |
| Total current liabilities | **246** | 438 |
| Total liabilities | **246** | 438 |
| Equity | | |
| Contributed equity | **52,057** | 48,154 |
| Reserves | **-** | - |
| Retained profits/(accumulated losses) | **58** | 74 |
| Total equity | **52,115** | 48,228 |

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.

## Note 29: Events After the Statement of Financial Position Date

Effective 1 July 2010, Pro-Pac Packaging (Aust) Pty Ltd, acquired the business and assets of Dysher Pty Ltd, trading as Goodman Packaging, a Sydney and Perth based distributor of industrial packaging products with a current annualised turnover of approximately $6.5m.

## Note 30: Auditors' Remuneration

| | Consolidated 2010 $ | Consolidated 2009 $ |
|---|---|---|
| Amounts received or due and receivable by UHY Haines Norton for: | | |
| - audit or review of the financial report | **96,185** | 89,000 |
| - due diligence relating to acquisitions | **21,500** | - |

## Note 31: Accounting Standards Issued or Amended

A number of accounting standards have either been issued or amended since year end but are not effective for the financial year ended 30 June 2010. The Group does not at this time believe these have any material impact on the 2010 financial report or for the ensuing year.

# Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 48, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards; and
   b. give a true and fair view of the Company's financial position at 30 June 2010 and of its performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Financial Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. the financial statements and notes for the financial year comply with the accounting standards; and
   c. the financial statements and notes for the financial year give a true and fair view; and

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors

.
On behalf of the Board on 27 September 2010.

| | |
|---|---|
| **Elliott Kaplan** | **Hadrian Morrall** |
| *Director* | *Director* |

# Independent Auditor's Report

To the members of Pro-Pac Packaging Limited

## Report on the Financial Report

We have audited the accompanying financial report of Pro-Pac Packaging Ltd, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the 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.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Pro-Pac Packaging Ltd on 24 September 2010, would be in the same terms if provided to the directors as at the date of this auditor's report.

### *Auditor's Opinion*

In our opinion:

a) the financial report of Pro-Pac Packaging Ltd is in accordance with the Corporations Act 2001, including:
   - i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
   - ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 9 of the report of the directors for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with s 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Pro-Pac Packaging Limited for the year ended 30 June 2010, complies with s 300A of the Corporations Act 2001.

| | |
|---|---|
| **M. D. Nicholaeff** | **UHY Haines Norton** |
| *Partner* | *Chartered Accountants* |

Signed at Sydney on 28 September 2010.

# Additional Company Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 17 September 2010.

### (a) Distribution of equity securities

Table 1: The number of holders, by size of holding, in each class of security are (includes ESPP shares):

| Holdings Ranges | Holders | Total Units | % |
|---|---|---|---|
| 1-1,000 | 54 | 8,286 | 0.006 |
| 1,001-5,000 | 125 | 421,598 | 0.317 |
| 5,001-10,000 | 119 | 923,250 | 0.693 |
| 10,001-100,000 | 359 | 10,890,700 | 8.180 |
| 100,001 and over | 64 | 120,899,176 | 90.804 |
| **Totals** | **721** | **133,143,010** | **100.00** |

There are seventy five holders of unmarketable parcels totalling 37,363 shares representing 0.028% of the Company's issued capital.

### (b) Twenty largest holders

Table 2: The names of the twenty largest holders, in each class of security are:

| Rank | Holder | No. Ordinary Shares | % |
|---|---|---|---|
| 1 | CVC LIMITED | 29,535,348 | 22.2 |
| 2 | BENNAMON PTY LTD | 23,840,384 | 17.9 |
| 3 | MR BRANDON PENN | 19,561,565 | 14.7 |
| 4 | MR HADRIAN MORRALL | 12,517,618 | 9.4 |
| 5 | CVC PRIVATE EQUITY LIMITED | 8,127,252 | 6.1 |
| 6 | CVC SUSTAINABLE INVESTMENTS LIMITED | 2,071,476 | 1.6 |
| 7 | FOX INVESTMENTS PTY LTD | 1,808,928 | 1.4 |
| 8 | MISCHKE INVESTMENTS PTY LTD | 1,808,928 | 1.4 |
| 9 | SONHILL INVESTMENTS PTY LTD | 1,808,928 | 1.4 |
| 10 | NIGHTINGALE PARTNERS PTY LTD | 1,746,080 | 1.3 |
| 11 | WENDON HOLDINGS PTY LTD | 1,578,028 | 1.2 |
| 12 | STREAM GROUP HOLDINGS PTY LTD | 1,538,462 | 1.2 |
| 13 | DERRIN BROTHERS PROPERTIES LTD | 1,230,110 | 0.9 |
| 14 | MRS NATALIE PENN | 1,200,344 | 0.9 |
| 15 | L J K NOMINEES PTY LTD <PENSION FUND A/C> | 1,000,000 | 0.8 |
| 16 | POSERE PTY LTD | 938,434 | 0.7 |
| 17 | ABN AMRO CLEARING SYDNEY NOMINEES PTY LTD | 867,329 | 0.7 |
| 18 | MR ELLIOTT KAPLAN & MRS BRENDA KAPLAN <KAPLAN FAMILY S/F A/C> | 544,662 | 0.4 |
| 19 | CANNINGTON CORPORATION PTY LIMITED <CANNINGTON S/F J READ A/C> | 421,296 | 0.3 |
| 20 | M J H NIGHTINGALE & CO PTY LTD | 409,052 | 0.3 |
| | Top 20 | 112,554,224 | 84.5 |
| | **Total** | **133,143,010** | |

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

| | |
|---|---|
| CVC Limited | 29,535,348 ordinary shares |
| Bennamon Pty Limited | 23,840,384 ordinary shares |
| Mr Brandon Penn | 19,561,565 ordinary shares |
| Mr Hadrian Morrall | 12,517,618 ordinary shares |
| CVC Private Equity Limited | 8,127,252 ordinary shares |

### (d) Voting rights

All ordinary shares carry one vote per share without restriction.

### (e) Restricted securities

Restricted securities total 2,330,000. Shares are restricted in four categories:

| | |
|---|---|
| ESPP Shares under escrow until 18 January 2010<br>*Pending cancellation at the forthcoming AGM* | 100,000 ESPP shares |
| ESPP Shares under escrow until 27 November 2010<br>*Pending cancellation at the forthcoming AGM* | 575,000 ESPP shares |
| ESPP Shares under escrow until 30 November 2013 | 1,325,000 ESPP shares |
| Ordinary shares held as security by the Company in terms of a sub-lease | 330,000 Ordinary shares |

### (f) Business objectives

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

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