2011 ANNUAL REPORT

Pro-Pac Packaging Limited

ACN: 112 971 874

Contents

Pro-Pac Packaging
Corporate Protective Packaging Specialists

Corporate Information

Directors
Elliott Kaplan (Chairman)
Hadrian Morrall
Brandon Penn

Company Secretary
Mark Saus

Registered Office
148 Newton Road
Wetherill Park NSW 2164

Principal Place of Business
148 Newton Road
Wetherill Park NSW 2164

Share Register
Boardroom Pty 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

Pro-Pac Packaging Limited
ACN: 112 971 874 ABN: 36 112 971 874

Chairman's Report

On behalf of the Board of Directors and the management it is my pleasure to present Pro-Pac's annual report for the year ended 30 June 2011.

Subdued consumer spending and sentiment and the challenging non-resource related economic environment resulted in difficult trading conditions particularly in the last quarter of the financial year. Despite this, the Company grew revenue by 27% to $115.2 million. EBITDA increased 8% to $10.8 million and profit after tax was marginally lower at $5 million.

The 2011 result includes $403,000 of one off relocation and rationalisation costs relating predominantly to the consolidation of the Industrial Division's sites and operations in NSW and Victoria and while these costs impact on reported earnings, they do provide the essential infrastructure to support the Company's continued growth. The Company has now secured a new site in Brisbane and consolidation of the Industrial Division's Queensland operations will commence in Q1 of the 2012 calendar year.

The strong top line growth necessitated increased investment in inventory and receivables with a resultant increase of $3.3 million in net working capital. Despite this and the cash acquisitions of Goodman Packaging and SPD International during the financial year, the Company's gearing (net debt/equity plus debt) remained conservative at approximately 20% at financial year end.

Subsequent to the end of the financial year, the Company expanded its footprint in the disposable safety products sector with the acquisition of the business of Medirite Australia Pty Ltd. There remains a strong pipeline of both organic and acquisitive growth opportunities which management is continuing to assess.

Following the payment of a fully franked interim dividend of 1 cent in April 2011, the Board has declared a fully franked final dividend of 1 cent per share with a record date of 21 October 2011.

On 4 October 2011, shareholders approved the acquisition by Bennamon Pty Ltd of 42,189,497 shares in Pro-Pac from the CVC group resulting in Bennamon owning approximately 48.3% of the shares on issue. The Board and management view this as exciting and positive for the Company given Bennamon's extensive industry knowledge and experience and extensive global contacts and relationships.

During the financial year, former Chairman David Herlihy resigned from the Board and I would like to thank David for his contribution during his tenure. I firmly believe that the key to success of any business is its people and in this regard, Pro-Pac is fortunate in having a strong and capable management team and dedicated and loyal staff. I would like to acknowledge our executive directors, Brandon Penn and Hadrian Morrall, our divisional managing director, Wendy Penn and our CFO, Mark Saus for their leadership and contribution and on behalf of the Board, I thank all of our managers and staff for their ongoing commitment and dedication to the continuing growth and success of the Company.

Elliott Kaplan
Chairman

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 2011, together with the Auditors' report thereon.

DIRECTORS

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

ELLIOTT KAPLAN

BAcc, CA
(Chairman and Non-Executive Director – appointed Director 16 February 2005 and Chairman 25 February 2011)

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 and Remuneration Committees.

HADRIAN MORRALL

(Executive Director – appointed 16 August 2007)

Mr Morrall has over 25 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 16 August 2007)

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.

DAVID HERLIHY

BA (UNSW)
(Chairman and Non-Executive Director – appointed Director 8 February 2010; Chairman 1 March 2010; resigned 25 February 2011)

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

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 25 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
Elliott Kaplan	1,546,357	8,629,487
Hadrian Morrall	13,237,492	-
Brandon Penn	20,875,398	-

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	7	6	3	2	-	-
Elliott Kaplan	13	13	3	3	1	1
Hadrian Morrall	13	13	-	-	-	-
Brandon Penn	13	13	-	-	-	-

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.

OPERATING AND FINANCIAL REVIEW

Results for the year ended 30 June 2011

Subdued consumer spending and sentiment and the challenging non-resource related economic environment resulted in difficult trading conditions particularly in the last quarter of the financial year. Despite this, the Company grew revenue by 27% to $115.2m. EBITDA was up 8% to $10.8m and profit after tax was marginally lower at $5.0m.

The 2011 result included $403,000 of one off relocation and rationalisation costs relating predominantly to the consolidation of the Industrial Division's sites and operations in both NSW and Victoria and, adjusting for these costs, EBITDA was $11.2m (2010: $10.1m) and after tax profit was $5.3m (2010: $5.1m).

Although these costs impact on earnings in the short term, as highlighted in the Half Yearly report, they provide the necessary infrastructure to support continued growth.

Revenue in the Industrial Division grew 55% to $71.9m and revenue growth excluding the impact of acquisitions was 17%. Pre-tax earnings for the Industrial Division were $5.2m (2010: $3.9m). The Rigid Division's sales were marginally higher at $54.9m (2010: $53.8m) but margin and cost pressures resulted in reduced pre-tax divisional earnings of $5.0m (2010: $5.7m).

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 $4.3m to $62.2m. 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 plus interest bearing debt) remains reasonably conservative at 20%.

Capital structure

During the year 5,932,564 shares were issued under the Dividend Reinvestment. At 30 June 2011 there were 139,735,576 shares on issue.

Operating activities

Effective 1 July 2010, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary, acquired the business and assets of Dysher Pty Ltd trading as Goodman Packaging, a Sydney and Perth based distributor of industrial packaging products and effective 1 April 2011, acquired the business and assets of SPD International Pty Ltd, a Melbourne based distributor of industrial packaging products.

These complementary and synergistic businesses where successfully integrated into the Industrial division's core operations during the year.

The company also completed the consolidation of the Industrial Division's sites and operations in both NSW and Victoria which will have a favourable effect on the division's operational efficiencies in future trading periods.

Outlook

The Company has a strong pipeline of organic growth opportunities and continues to assess a number of new business initiatives and synergistic acquisitions. Following the Industrial Division's site consolidations in Victoria and NSW, a similar exercise is scheduled for Queensland in the first quarter of calendar 2012.

DIVIDENDS

A fully franked interim dividend of one cent per share was paid on 12 April 2011. In August 2011, the Company declared a fully franked final dividend of one cent per share. The record date for determining entitlement to the dividend is 21 October 2011 and the dividend will be paid on 2 November 2011. The Company's Dividend Reinvestment Plan will apply to this dividend with a zero discount.

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

On 4 July 2011 the Company announced it had been informed that Bennamon Pty Limited (a substantial shareholder) had entered into a conditional agreement with CVC Limited (another substantial shareholder) and certain of its associated companies to acquire a total of 42,189,497 fully paid ordinary shares in the Company which represented approximately 30.17% of all the Company's shares in issue at the time. Completion of the proposed share acquisition is conditional on, amongst other things, shareholders approving the proposed transaction at a shareholders' meeting to be held on 4 October 2011. If approved, Bennamon Pty Ltd will have approximately 48.27% of the Company's shares on issue.

On 23 September 2011, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary company, purchased the business and assets of Medirite Australia Pty Ltd. Medirite is a long established Sydney based importer and distributor of personal protection equipment (PPE) and safety products with an annualised turnover of approximately $6m.

LIKELY DEVELOPMENTS

Apart from the commentary outlined above, the directors have excluded from this report any further information on the likely developments in the operations of the company and the expected results of those operations in future financial years, as the directors consider that it would be likely to result in unreasonable prejudice to the Company.

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;
- 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.

Directors' Report

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 Elliott Kaplan who is a Non-Executive Director.

David Herlihy (former Chairman of the Remuneration Committee; resigned 25 February 2011)

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 2011 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 Officer and senior management for the year ending 30 June 2011 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. 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.

The Company or the executive may terminate the service agreement by giving the other party three 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	3 months 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 1,335,000 shares issued to employees under the Plan.

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 the 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 2011

Elliott Kaplan	–	Non-executive Chairman
Hadrian Morrall	–	Executive Director
Brandon Penn	–	Executive Director
Wendy Penn	–	Divisional Managing Director
Mark Saus	–	Chief Financial Officer and Company Secretary

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	2011	40,000	-	-	-	-	40,000	-
	2010	22,500	-	-	-	-	22,500	-
John Read	2011	-	-	-	-	-	-	-
	2010	36,667	-	3,300	-	-	39,967	-
Elliott Kaplan	2011	46,667	-	-	-	-	46,667	-
	2010	40,000	-	-	-	-	40,000	-
Hadrian Morrall	2011	206,324	-	18,267	20,824	-	245,415	-
	2010	197,003	-	17,861	22,980	-	237,844	-
Brandon Penn	2011	228,652	-	20,579	-	-	249,231	-
	2010	224,185	-	19,816	-	-	244,001	-
Wendy Penn	2011	180,000	-	16,138	-	-	196,138	-
	2010	55,000	-	-	-	-	55,000	-
Mark Saus	2011	175,687	-	16,355	-	2,402	194,444	-
	2010	171,739	-	15,350	-	1,218	188,307	6.0%
Total	**2011**	**877,330**	**-**	**71,339**	**20,824**	**2,402**	**971,895**	**-**
Remuneration	**2010**	**747,094**	**-**	**56,327**	**22,980**	**1,218**	**827,619**	**-**

Options issued as part of remuneration for the year ended 30 June 2011

No options were granted as remuneration during the year ended 30 June 2011.

Shares and Loans issued under the ESPP during the year ended 30 June 2011

1,335,000 shares and related loans with a total value of $433,875 were issued under the ESPP during the year ended 30 June 2011.

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

2009	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 $790,680 (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

In a 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 2011 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.

Signed at Sydney on 28 September 2011.

Elliott Kaplan
Chairman

Brandon Penn
Director

AUDITORS' INDEPENDENCE DECLARATION

To the Directors of Pro-Pac Packaging Limited

As auditor for the audit of Pro-Pac Packaging Ltd for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the independence requirements of 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.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 28 September 2011.

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 www.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 www.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. (www.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
- 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 *Chairman and Non-Executive Director*	Mr Kaplan is a director of CVC Private Equity Limited, a substantial shareholder.
Hadrian Morrall *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 *Executive Director*	Mr Penn is employed by the Company in an executive capacity, is a substantial shareholder and a supplier of leasehold premises.

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.

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.

Corporate Governance Statement

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
Elliott Kaplan	6 years and 8 months
Hadrian Morrall	4 years and 1month
Brandon Penn	4 years and 1 month

The Board believes that a Board of three 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 2011:

- having a majority of independent Directors;
- having an independent Chairman for its Board and 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 or a 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.

The Committee comprises Mr Kaplan and Mr Herlihy (resigned 25 February 2011). 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.

Corporate Governance Statement

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 Officer. 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 23 September 2011.

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 (resigned 25 February 2011) 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 2011

	Notes	Consolidated 2011 $000's	Consolidated 2010 $000's
Revenue			
Sale of goods		**115,238**	**90,944**
Interest income		**93**	**72**
Reversal of deferred acquisition consideration		**247**	**-**
Total Revenue		**115,578**	**91,016**
Expenses			
Amortisation of prepaid royalty	15	**322**	**322**
Depreciation expense		**2,315**	**1,959**
Distribution costs		**4,029**	**3,389**
Employee benefits expense		**21,071**	**16,189**
Finance costs	4	**1,287**	**695**
Occupancy costs		**4,083**	**2,992**
Other expenses from ordinary activities		**6,871**	**5,594**
Raw materials and consumables used		**68,186**	**52,714**
Rationalisation and relocation expenses		**403**	**-**
Total Expenses		**108,567**	**83,854**
Profit before income tax from continuing operations		**7,011**	**7,162**
Income tax expense	5	**(1,964)**	**(2,085)**
Profit after income tax expense for the year		**5,047**	**5,077**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**5,047**	**5,077**
Earnings per share (cents per share)			
- Basic earnings per share	6	**3.74**	**4.11**
- Diluted earnings per share	6	**3.74**	**4.11**

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

Consolidated Statement of Financial Position

AS AT 30 JUNE 2011

	Notes	Consolidated 2011 $000's	Consolidated 2010 $000's
Assets			
Current assets			
Cash and cash equivalents	8	**1,461**	**2,071**
Trade and other receivables	10	**19,852**	**15,301**
Inventories	11	**13,057**	**11,074**
Prepayments	15	**1,172**	**1,095**
Total current assets		**35,542**	**29,541**
Non-current assets			
Property, plant and equipment	12	**13,099**	**11,930**
Intangible assets	13	**46,758**	**44,477**
Deferred tax assets	14	**962**	**805**
Prepayments	15	**994**	**1,317**
Total non-current assets		**61,813**	**58,529**
TOTAL ASSETS		**97,355**	**88,070**
Liabilities			
Current liabilities			
Trade and other payables	17	**14,344**	**11,717**
Borrowings	18	**1,670**	**1,503**
Provisions	19	**2,212**	**1,837**
Current tax liabilities	5	**918**	**1,536**
Total current liabilities		**19,144**	**16,593**
Non-current liabilities			
Provisions	19	**395**	**437**
Borrowings	18	**15,657**	**13,186**
Total non-current liabilities		**16,052**	**13,623**
TOTAL LIABILITIES		**35,196**	**30,216**
NET ASSETS		**62,159**	**57,854**
EQUITY			
Issued capital	20	**54,005**	**52,057**
Reserves		**44**	**30**
Retained earnings		**8,110**	**5,767**
TOTAL EQUITY		**62,159**	**57,854**

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

Consolidated Statement of Cash Flows

FOR THE YEAR TO 30 JUNE 2011

	Notes	Consolidated 2011 $000's	Consolidated 2010 $000's
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		**112,462**	**90,509**
Payments to suppliers and employees (inclusive of GST)		**(104,435)**	**(85,433)**
Interest received		**93**	**72**
Finance costs		**(1,241)**	**(673)**
Income tax paid		**(2,741)**	**(984)**
Net cash flows provided by/(used in) operating activities	9	**4,138**	**3,491**
Cash flows from investing activities			
Payments for property, plant and equipment		**(3,676)**	**(3,038)**
Proceeds from sale of property, plant and equipment		**91**	**232**
Payments for controlled entities net of cash		**-**	**(4,945)**
Payments for unincorporated businesses net of cash acquired		**(3,049)**	**(1,373)**
Net cash flows used in investing activities		**(6,634)**	**(9,124)**
Cash flows from financing activities			
Payment of hire purchase and finance lease liabilities		**(1,549)**	**(1,853)**
Finance leases raised		**1,691**	**2,079**
Proceeds from borrowing		**2,500**	**3,230**
Proceeds from issue of shares		**-**	**2,533**
Dividend paid		**(756)**	**(459)**
Net cash flows provided by/(used in) financing activities		**1,886**	**5,530**
Net increase/(decrease) in cash and cash equivalents		**(610)**	**(103)**
Cash and cash equivalents at beginning of financial year		**2,071**	**2,174**
Cash and cash equivalents at end of financial year	8	**1,461**	**2,071**
Non-cash financing transactions			
Hire purchase and finance lease liabilities raised		**1,691**	**2,079**
Issue of shares for dividend re-investment plan		**1,948**	**1,370**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR TO 30 JUNE 2011

	Issued capital $000's	Retained earnings $000's	Option reserve $000's	Total equity $000's
Consolidated				
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**
Issue of shares for dividend re-investment plan	1,948	-	-	1,948
Dividend paid	-	(2,704)	-	(2,704)
Recognition of share based payments	-	-	14	14
Total comprehensive income for the year	-	5,047	-	5,047
Balance as at 30 June 2011	**54,005**	**8,110**	**44**	**62,159**

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

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 1: CORPORATE INFORMATION

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2011 was approved for issue in accordance with a resolution of the Directors on 28 September 2011.

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 Accounting 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 Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2 Share-based Payment Transactions – amendments for Group Cash-settled Share-based Payment Transactions

The consolidated entity has applied the amendments to AASB 2 from 1 July 2010. The amendments clarified the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity settles the transaction, and no matter whether the transactions is settle in shares or cash.

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology changes had no or minimal effect on accounting. The main changes were:

AASB 101 'Presentation of Financial Statements' – classification is not affected by the terms of a liability that could be settle by the issuance of equity instruments at the option of the counterparty;

AASB 107 'Statements of Cash Flows' – only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.

AASB 117 'Leases' – removal of specific guidance on classifying land as a lease.

AASB 118 'Revenue' – provides additional guidance to determine whether an entity is acting as a principal or agent; and

AASB 136 'Impairment of Assets' – clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segment' before aggregation for reporting purposes.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology had no or minimal effect on accounting. The main changes were:

AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 Business Combinations – clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

(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 2011.

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 2011 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

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.

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.

(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 1 to 25 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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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.

(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.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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 recognises 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

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

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: OPERATING SEGMENTS

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.

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.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 3: SEGMENT INFORMATION (CONT.)

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 assets and liabilities;
- current tax liabilities;
- other financial liabilities; and
- intangible assets.

NOTE 3: SEGMENT INFORMATION (CONT.)

	Rigid packaging $ 000's 2011	Industrial packaging $ 000's 2011	Total $ 000's 2011	Rigid packaging $ 000's 2010	Industrial packaging $ 000's 2010	Total $ 000's 2010
(i) Segment performance						
Twelve months ended 30 June						
Revenue						
External sales	**48,235**	**67,003**	**115,238**	**46,917**	**44,027**	**90,944**
Inter-segment sales	**6,618**	**4,895**	**11,513**	**6,910**	**2,458**	**9,368**
Total segment revenue	**54,853**	**71,898**	**126,751**	**53,827**	**46,485**	**100,312**
Reconciliation of segment revenue to group revenue						
Interest income			**93**			**72**
Other income			**247**			**-**
Inter-segment elimination			**(11,513)**			**(9,368)**
Total group revenue			**115,578**			**91,016**
Segment net profit before tax	**5,020**	**5,244**	**10,264**	**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			**(1,417)**			**(994)**
• Head office costs			**(1,775)**			**(1,286)**
• Inter-segment elimination			**(61)**			**(86)**
Net profit before tax from continuing operations			**7,011**			**7,162**
(ii) Segment assets						
As at 30 June						
Segment assets	**20,680**	**27,749**	**48,429**	**20,732**	**20,449**	**41,181**
Reconciliation of segment assets to group assets						
Inter-segment eliminations			**(1,253)**			**(1,786)**
Unallocated assets			**50,179**			**48,675**
• Deferred tax assets			**962**			**805**
• Intangibles			**46,758**			**44,477**
• Other			**2,459**			**3,393**
Total group assets from continuing operations			**97,355**			**88,070**

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 3: SEGMENT INFORMATION (CONT.)

	Rigid packaging $ 000's 2011	Industrial packaging $ 000's 2011	Total $ 000's 2011	Rigid packaging $ 000's 2010	Industrial packaging $ 000's 2010	Total $ 000's 2010
(iii) Segment liabilities						
As at 30 June						
Segment liabilities	10,740	11,376	22,116	10,663	9,012	19,675
Reconciliation of segment liabilities to group liabilities						
Inter-segment eliminations			(1,038)			(1,630)
Unallocated liabilities			14,118			12,171
• Deferred tax liabilities			-			-
• Other liabilities			14,118			12,171
Total group liabilities from continuing operations			35,196			30,216

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

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 4: EXPENSES		
Bad and doubtful debt – trade	143	99
Rental expense on operating leases:		
- minimum lease payments	3,842	2,769
Write down of inventories to net realisable value	98	313

NOTE 5: INCOME TAX

	Consolidated 2011 $000's	Consolidated 2010 $000's
Major components of income tax for the year ended 30 June are:		
Statement of comprehensive income		
Current income tax		
Current income tax charge/(refund)	**2,205**	**2,255**
Adjustments in respect of previous years	**(87)**	**-**
Deferred income tax		
Relating to temporary differences	**(154)**	**(170)**
Income tax expense/(refund) in statement of comprehensive income	**1,964**	**2,085**
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 2011 is as follows:		
Accounting profit before tax	**7,011**	**7,162**
At the statutory income tax rate of 30%	**2,103**	**2,149**
Special tax allowances net of expenditure not allowable for tax purposes	**(52)**	**(64)**
Adjustments in respect of previous years	**(87)**	**-**
At effective income tax rate of 28.0% (2010: 29.1%)	**1,964**	**2,085**
Income tax expense reported in statement of comprehensive income	**1,964**	**2,085**

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 2011 and 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 2011	Consolidated 2010
Net profit attributable to equity holders ($000's)	**5,047**	**5,077**
Weighted average number of ordinary shares for basic earnings per share	**135,092,131**	**123,505,913**
Basic earnings per share (cents per share) *	**3.74**	**4.11**
Diluted earnings per share (cents per share) *	**3.74**	**4.11**

* 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.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 7: DIVIDENDS PAID AND PROPOSED

On 19 August 2011, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlements to the dividend is 21 October 2011 and the dividend will be paid on 2 November 2011. 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 12 April 2011, this brings total fully franked dividends for the 2010/11 financial year to 2.0 cents per share.

	2011 $000's	2010 $000's
Declared and paid during the year:		
Final dividend for 2010 – 1 cent per ordinary share (2009 – 0.5 cents per ordinary share)	**1,338**	**601**
Interim dividend for 2011 – 1 cents per ordinary share (2010 – 1 cent per ordinary share)	**1,366**	**1,229**
	2,704	**1,830**
Proposed for approval at the Annual General Meeting (not recognised as a liability as at 30 June):		
Final dividend for 2011 – 1 cent per ordinary share (2010 – 1 cent per ordinary share)	**1,397**	**1,338**

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 2011 and 30 June 2010. As such franking credits arising from the other Group companies totalling $10,599,156 (2010: $9,016,823) will be available to the parent entity.

	2011 $000's	2010 $000's
Franking credits available at the reporting date based on a tax rate of 30%	**9,016**	**8,585**
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%	**2,742**	**1,215**
Franking credits available for subsequent financial years based on a tax rate of 30%	**11,758**	**9,800**
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	**(1,159)**	**(784)**
Net franking credits available based on a tax rate of 30%	**10,599**	**9,016**

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 8: CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**1,461**	**2,071**
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	**1,461**	**2,071**
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	**1,461**	**2,071**

NOTE 9: CASH FLOW INFORMATION

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

	Consolidated 2011 $000's	Consolidated 2010 $000's
Net profit after tax	**5,047**	**5,077**
Add/(Less) non-cash items:		
Depreciation and amortisation of plant and equipment	**2,315**	**1,959**
Amortisation of prepaid royalty	**322**	**322**
(Profit)/Loss on disposal of assets	**156**	**31**
Movement in income tax provision	**(618)**	**1,272**
Movement in deferred tax assets and liabilities	**(157)**	**(170)**
Movement in provision for bad debts	**28**	**(60)**
Other non-cash movements	**6**	**10**
Changes in assets and liabilities:		
Receivables	**(4,457)**	**(1,152)**
Inventories	**(1,299)**	**(2,927)**
Payables	**2,614**	**(861)**
Provisions	**257**	**231**
Prepayments	**(76)**	**(241)**
Net cash flows from operating activities	**4,138**	**3,491**

b) Non-cash financing and investing activities

1. During the year, the company issued shares to the value of $1,948,514 (2010: $1,370,250) in accordance with the dividend reinvestment plan.
2. During the year, the consolidated Group acquired plant with an aggregate value of $1,690,580 (2010:$2,079,290) by means of finance leases. These acquisitions are not reflected in the statement of cash flow.

c) Credit standby arrangements with banks

	Consolidated 2011 $000's	Consolidated 2010 $000's
Credit facility	**1,000**	**1,300**
Amount utilised	**-**	**-**
Loan facilities	**20,100**	**16,000**
Amount utilised	**13,077**	**10,532**

On 30 August 2011 the loan facilities were increased by $5 million to $25.1 million.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 10: TRADE AND OTHER RECEIVABLES		
Current:		
Trade receivables	19,463	15,044
Provision for impairment of receivables	(219)	(191)
Opening balance	(191)	(199)
Additional provision recognised	(171)	(91)
Receivables written off during the year as uncollectable	143	99
Other debtors	608	448
Total current receivables	19,852	15,301

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					
2011					
Trade and term receivables	19,463	219	90	1,517	17,637
Other receivables	608	-	-	-	608
Total	20,071	219	90	1,517	18,245
2010					
Trade and term receivables	15,044	191	106	892	13,855
Other receivables	448	-	-	-	448
Total	15,492	191	106	892	14,303

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 2011 $000's	Consolidated 2010 $000's
NOTE 11: INVENTORIES		
Raw materials (lower of cost and net realisable value)	**797**	**801**
Finished goods (lower of cost and net realisable value)	**12,260**	**10,273**
Total inventories at lower of cost and net realisable value	**13,057**	**11,074**

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Consolidated 2011 $000's	Consolidated 2010 $000's
At 30 June		
Plant and equipment		
At cost	**19,519**	**16,627**
Accumulated depreciation	**(6,456)**	**(4,823)**
	13,063	**11,804**
Leased plant and equipment		
Capitalised leased plant and equipment	**106**	**217**
Accumulated depreciation	**(70)**	**(91)**
	36	**126**
Total property, plant and equipment	**13,099**	**11,930**

(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 2011 $000's	Consolidated 2011 $000's	Consolidated 2011 $000's
	Owned	Leased	Total
Balance at the beginning of the year	**11,804**	**126**	**11,930**
Additions arising from acquisitions	**105**	**-**	**105**
Additions	**3,630**	**-**	**3,630**
Disposals	**(251)**	**-**	**(251)**
Reclassifications	**50**	**(50)**	**-**
Depreciation charge for the year	**(2,275)**	**(40)**	**(2,315)**
Carrying amount at the end of the year	**13,063**	**36**	**13,099**

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

NOTE 12: PROPERTY, PLANT AND EQUIPMENT (CONT.)

	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**

NOTE 13: INTANGIBLE ASSETS

	Consolidated 2011 $000's	Consolidated 2010 $000's
Goodwill		
Carrying amount at beginning of the year	**44,477**	**38,195**
Acquisition through business combinations	**2,281**	**6,282**
Closing value	**46,758**	**44,477**
At 30 June		
Gross	**46,758**	**44,477**
Accumulated impairment losses	**-**	**-**
Net carrying value	**46,758**	**44,477**

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).

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 14: DEFERRED TAX ASSETS		
Deferred tax assets		
Deferred tax assets comprise:		
Provisions and other timing differences	**893**	**729**
Transactions costs on equity issue	**69**	**76**
	962	**805**
Reconciliation of gross movements		
The overall movement in the deferred tax account is as follows:		
Opening balance	**805**	**635**
Charge to statement of comprehensive income	**157**	**170**
Closing balance	**962**	**805**
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	**729**	**552**
Reclassification	**-**	**-**
Credit/(charge) to statement of comprehensive income	**164**	**177**
At 30 June	**893**	**729**
Transaction cost to equity issue at 01 July	**76**	**83**
Reclassification	**-**	**-**
Charge to statement of comprehensive income	**(7)**	**(7)**
At 30 June	**69**	**76**
NOTE 15: PREPAYMENTS		
(a) Current prepayments		
Other prepayments	**850**	**773**
Prepaid royalty	**322**	**322**
Total current prepayments	**1,172**	**1,095**
(b) Non-current prepayments		
Prepaid royalty	**994**	**1,317**
Total non-current prepayments	**994**	**1,317**

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 2011 amounted to $322,082 (2010: $322,082).

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

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 1,335,000 shares were issued to staff and executives while 675,000 shares were cancelled under the ESPP. At the end of the year 1,335,000 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.
- 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.

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 17: TRADE AND OTHER PAYABLES		
Unsecured:		
Trade payables	**11,567**	**9,326**
GST payable	**579**	**423**
Other tax payable	**405**	**218**
Sundry creditors and accruals	**1,793**	**1,750**
	14,344	**11,717**

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 2011 $000's	Consolidated 2010 $000's
Current		
Finance lease and hire purchase (see note 25)	**1,670**	**1,503**
Bank loan (secured)	**-**	**-**
	1,670	**1,503**
Non-current		
Finance lease and hire purchase (see note 25)	**2,580**	**2,654**
Bank loan (secured)	**13,077**	**10,532**
	15,657	**13,186**

a) The bank loan is secured as follows:
   i) first ranking registered equitable mortgage over Pro-Pac Packaging Limited and all wholly owned subsidiaries; and
   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 30 November 2013.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

	Consolidated 2011 $000's	Consolidated 2010 $000's
NOTE 19: PROVISIONS		
Current		
Employee entitlements		
Opening balance	**1,837**	**1,547**
Arising on acquisition of business combinations	**39**	**71**
Additional provisions	**1,651**	**1,184**
Amount used	**(1,315)**	**(965)**
Closing balance	**2,212**	**1,837**
Non-current		
Employee entitlements		
Opening balance	**437**	**404**
Arising on acquisition of business combinations	**37**	**21**
Additional provisions	**(4)**	**116**
Amount used	**(75)**	**(104)**
Closing balance	**395**	**437**
NOTE 20: ISSUED CAPITAL		
Ordinary shares		
Issued and fully paid	**54,005**	**52,057**

Movement in ordinary shares on issue	Number	$000's
Balance at 1 July 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**
Issue of shares for Executive Long Term Incentive Plan	**1,335,000**	**-**
Cancellation of shares for Executive Long Term Incentive Plan	**(675,000)**	**-**
Issue of shares for dividend re-investment plan	**5,932,564**	**1,948**
Balance at 30 June 2011	**139,735,576**	**54,005**

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.

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 2011 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 4.7%.

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 13.6% 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.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

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
	2011 $000's	2011 $000's	2011 $000's	2011 $000's	2011 %
Consolidated					
(i) Financial assets					
Cash assets	1,452	-	9	1,461	4.7
Receivables	-	-	19,852	19,852	
Total financial assets	1,452	-	19,861	21,313	
(ii) Financial liabilities					
Finance leases (current)	-	1,670	-	1,670	10.0
Finance leases (non-current)	-	2,580	-	2,580	10.0
Bank loans (current)	-	-	-	-	7.1
Bank loans (non-current)	13,077	-	-	13,077	7.1
Payables (current)	-	-	14,344	14,344	
Total financial liabilities	13,077	4,250	14,344	31,671	
Net financial assets/(liabilities)	(11,625)	(4,250)	5,517	(10,358)	

There is no interest rate applicable on receivables or payables.

	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)	-	-	-	-	6.9
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)	

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 2011	< 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	**1,452**	**-**	**-**	**-**	**-**	**-**	**1,452**
Finance leases	**1,670**	**1,207**	**807**	**481**	**85**	**-**	**4,250**
Bank loans	**-**	**13,077**	**-**	**-**	**-**	**-**	**13,077**

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**

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
2011		
+/- 1% in interest rates	**+/- 130**	**+/- 130**
+/- 10% in AUD / USD	**+/- 994**	**+/- 994**
2010		
+/- 1% in interest rates	**+/- 88**	**+/- 88**
+/- 10% in AUD / USD	**+/- 742**	**+/- 742**

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

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			
Specialty 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 where acquired during the year.

Effective 1 July 2010, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary, acquired the business and assets of Dysher Pty Ltd trading as Goodman Packaging, a Sydney and Perth based distributor of industrial packaging products and effective 1 April 2011, acquired the business and assets of SPD International Pty Ltd, a Melbourne based distributor of industrial packaging products.

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

	Fair Value $000's
Assets	
Current Assets	
Trade and other receivables	**126**
Inventories	**675**
Total Current Assets	**801**
Non-Current Assets	
Property, plant and equipment	**105**
Total Non-Current Assets	**105**
Total Assets	**906**
Liabilities	
Current Liabilities	
Trade and other payables	**102**
Total Current Liabilities	**102**
Non-Current Liabilities	
Other liabilities	**37**
Total Non-Current Liabilities	**37**
Total Liabilities	**139**
NET ASSETS	**767**
Consideration Paid	
Cash	**3,048**
Total	**3,048**
GOODWILL	**2,281**

On 23 September 2011, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary company, purchased the business and assets of Medirite Australia Pty Ltd. Medirite is a long established Sydney based importer and distributor of personal protection equipment (PPE) and safety products with an annualised turnover of approximately $6m. The purchase consideration was funded from existing cash resources and debt facilities and 750,000 shares in Pro-Pac Packaging Limited ("PPG") to be issued after 17 October 2011 and in any event after the ex-dividend date for PPG shares.

Full acquisition accounting details have not been provided as the initial accounting for the business combination was incomplete at the time the financial statements were authorised for issue.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

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 2011 $000's	Consolidated 2010 $000's
Within one year	2,664	3,180
After one year but not more than five years	3,717	4,556
More than five years	-	52
	6,381	7,788

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:

	2011 Minimum payments $000's	2011 Present value of payments $000's	2010 Minimum payments $ $000's	2010 Parent value of payments $000's
Within one year	1,996	1,670	1,806	1,503
After one year but not more than five years	2,884	2,580	2,973	2,654
Total minimum lease payments	4,880	4,250	4,779	4,157
Less amounts representing future finance charges	(630)	-	(622)	-
Present value of minimum lease payments	4,250	4,250	4,157	4,157

	2011 $000's	2010 $000's
Representing lease liabilities		
Current	1,670	1,503
Non-current	2,580	2,654
	4,250	4,157

The weighted average interest rate implicit in the leases is 10.0%.

NOTE 25: COMMITMENTS AND CONTINGENCIES (CONT.)

Contingent Liability

As at statement of financial position date, the Company issued security deposit guarantees and standby letters of credits to the value of $2,116,449 to the landlords of rented premises and overseas suppliers.

Capital Expenditure Commitments

As at statement of financial position date the Company had commitments for future capital expenditure of $89,141.

	Consolidated 2011 $000's	Consolidated 2010 $000's
Capital commitments - Property, plant and equipment		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**89**	**274**
One to five years	**-**	**-**
	89	**274**

NOTE 26: IMPAIRMENT TESTING OF INDEFINITE LIFE GOODWILL

Carrying amount of goodwill		
Carrying amount of goodwill Industrial Division	**22,660**	**22,660**
Carrying amount of goodwill Rigid Division	**24,098**	**21,817**
Total carrying amount of goodwill	**46,758**	**44,477**

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) 14.5% pre-tax discount rate;
b) 8% for industrial division and 3% for rigid division per annum projected revenue growth rate;
c) 8% for industrial division and 3% for rigid division per annum increase in operating costs and overheads.

The discount rate of 14.5% 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.

Notes to the Financial Statements

FOR THE YEAR TO 30 JUNE 2011

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: Hadrian Morrall and Brandon Penn.

	Consolidated 2011 $000's	Consolidated 2010 $000's
Hadrian Morrall		
• Remuneration paid	**245,415**	**237,844**
• 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**	**790,680**
- 9 Widemere Road, Wetherill Park, NSW	**587,055**	**587,055**
- Unit 15/129 Robinson Road, Geebung, QLD	**116,351**	**116,351**
- 32 Hinkler Street, Mordialloc, VIC	**87,274**	**87,274**
Brandon Penn		
• Remuneration paid	**249,231**	**244,001**
• 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**	**790,680**
- 9 Widemere Road, Wetherill Park, NSW	**587,055**	**587,055**
- Unit 15/129 Robinson Road, Geebung, QLD	**116,351**	**116,351**
- 32 Hinkler Street, Mordialloc, VIC	**87,274**	**87,274**

Total payments to related parties during the year ended 30 June 2011 was $1,285,326 (2010: $1,272,525).

NOTE 28: PARENT ENTITY INFORMATION

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

	Parent 2011 $000's	Parent 2010 $000's
Profit for the year	**3,010**	**1,814**
Total comprehensive income	**3,010**	**1,814**
Total current assets	**465**	**1,185**
Total assets	**55,161**	**52,361**
Total current liabilities	**1,140**	**246**
Total liabilities	**1,140**	**246**
Equity		
Contributed equity	**54,005**	**52,057**
Reserves	**-**	**-**
Retained profits/(accumulated losses)	**16**	**58**
Total equity	**54,021**	**52,115**

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

On 4 July 2011 the Company announced it had been informed that Bennamon Pty Limited (a substantial shareholder) had entered into a conditional agreement with CVC Limited (another substantial shareholder) and certain of its associated companies to acquire a total of 42,189,497 fully paid ordinary shares in the Company which represented approximately 30.17% of all the Company's shares in issue at the time. Completion of the proposed share acquisition is conditional on, amongst other things, shareholders approving the proposed transaction at a shareholders' meeting to be held on 4 October 2011. If approved, Bennamon Pty Ltd will have approximately 48.27% of the voting power attaching to and the number of all the Company's shares on issue.

On 23 September 2011, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary company, purchased the business and assets of Medirite Australia Pty Ltd. Medirite is a long established Sydney based importer and distributor of personal protection equipment (PPE) and safety products with an annualised turnover of approximately $6m.

NOTE 30: AUDITORS' REMUNERATION

	Consolidated 2011 $000's	Consolidated 2010 $000's
Amounts received or due and receivable by UHY Haines Norton for:		
- audit or review of the financial report	**90**	**96**
- due diligence relating to acquisitions	**-**	**21**

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 2011. The Group does not at this time believe these have any material impact on the 2011 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 49, 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 2011 and of its performance for the year ended on that date of the company and consolidated group;

2. the Joint Chief Executive Officers 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 28 September 2011.

Elliott Kaplan
Chairman

Brandon Penn
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 consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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.

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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the consolidated 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 2011. 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 2011, complies with s 300A of the Corporations Act 2001.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

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 14 September 2011.

(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	55	6,813	0.005
1,001-5,000	111	367,880	0.263
5,001-10,000	124	980,214	0.701
10,001-100,000	358	11,286,260	8.077
100,001 and over	69	127,094,407	90.954
Totals	**717**	**139,735,574**	**100.00**

There are seventy six holders of unmarketable parcels totalling 36,196 shares representing 0.026% 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	31,360,525	22.4
2	BENNAMON PTY LTD	25,313,632	18.1
3	MR BRANDON PENN	20,875,398	14.9
4	MR HADRIAN MORRALL	13,237,492	9.5
5	CVC PRIVATE EQUITY LIMITED	8,629,487	6.2
6	NIGHTINGALE PARTNERS PTY LTD	2,962,662	2.1
7	CVC SUSTAINABLE INVESTMENTS LIMITED	2,199,485	1.6
8	FOX INVESTMENTS PTY LTD <FOX FAMILY A/C>	1,769,695	1.3
9	WENDON HOLDINGS PTY LIMITED <WENDON FAMILY PROPERTY A/C>	1,578,028	1.1
10	DERRIN BROTHERS PROPERTIES LTD	1,230,110	0.9
11	MRS NATALIE PENN	1,200,344	0.9
12	SONHILL INVESTMENTS PTY LTD <THE SONHILL FAMILY A/C>	1,085,618	0.8
13	MISCHKE INVESTMENTS PTY LTD <DELAFOSSE FAMILY A/C>	1,026,828	0.7
14	L J K NOMINEES PTY LTD <PENSION FUND A/C>	1,000,000	0.7
15	MR ELLIOTT GRANT KAPLAN <KAPLAN FAMILY SUPER A/C>	968,037	0.7
16	MISCHKE INVESTMENTS PTY LTD <MISCHKE SUPER FUND A/C>	893,884	0.6
17	CHEMICAL TRUSTEE LIMITED	727,490	0.5
18	SONHILL INVESTMENTS PTY LTD <PETERSON SUPER FUND A/C>	723,310	0.5
19	MR ELLIOTT KAPLAN & MRS BRENDA KAPLAN <KAPLAN FAMILY SUPER A/C>	578,320	0.4
20	M J H NIGHTINGALE & CO PTY LTD	434,330	0.3
	Top 20	117,794,675	84.3
	Total	**139,735,574**	

(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	31,360,525 ordinary shares
Bennamon Pty Limited	25,313,632 ordinary shares
Mr Brandon Penn	20,875,398 ordinary shares
Mr Hadrian Morrall	13,237,492 ordinary shares
CVC Private Equity Limited	8,629,487 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 1,665,000. Shares are restricted in two categories:

ESPP Shares under escrow until 30 August 2013	1,325,000 ESPP shares
ESPP Shares under escrow until 14 April 2014	10,000 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.

Our Environment

We believe very strongly in the conservation of our environment, its resources and the recycling of as much product as possible. We believe in living the practice of 'reduce', 'reuse', 'recover' and 'recycle'. These four practices are at the centre of our commitment to a better environment. Wherever possible we endeavour to provide environmentally friendly solutions to our customers, whether these are in the form of biodegradable voidfill, plastics alternatives and formulas and/or an effort to reduce the amount or type of packaging a customer requires. We recognise that protecting the environment is the responsibility of us all.

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