PRO-PAC PPG

THE WHOLE PACKAGE

2014 ANNUAL REPORT

PRO-PAC PACKAGING LIMITED

Pro-Pac Packaging
Corporate Protective Packaging Specialists

WITHIN THE PPG INDUSTRIAL DIVISION WE NOT ONLY MANUFACTURE OUR OWN BIODEGRADABLE VOID-FILL PRODUCTS AND CARTONS BUT WE ALSO IMPORT AND DISTRIBUTE SOME OF THE WORLD'S LEADING BRANDS OF GENERAL INDUSTRIAL PACKAGING PRODUCTS ALONGSIDE OUR OWN HOUSE BRANDED PRODUCTS. SERVICING THE PHARMACEUTICAL, PERSONAL CARE, FOOD SERVICE, AGRICULTURAL, INDUSTRIAL, CHEMICAL AND AUTOMOTIVE INDUSTRIES, THE PPG RIGID CONTAINERS AND CLOSURES DIVISION ARE YOUR ONE STOP SHOP FOR RIGID PACKAGING. THE PPG SAFETY AND PPE DIVISION IS YOUR MOST DEPENDABLE AND TRUSTED SOURCE FOR ALL OF YOUR HEALTHCARE, INDUSTRIAL SAFETY AND HYGIENE NEEDS. SERVICING THE PHARMACEUTICAL, HEALTH, AGED CARE, PERSONAL CARE, FOOD SERVICE, INDUSTRIAL, CHEMICAL AND AUTOMOTIVE INDUSTRIES OUR PRODUCTS ARE MANUFACTURED TO THE HIGHEST QUALITY. PPG FOOD SERVICE SUPPLIES A RANGE OF PRODUCTS AND DISPOSABLE CONSUMABLES TO THE FOOD AND HOSPITALITY SECTOR. WITH A NATIONAL FOOTPRINT AND A COMPREHENSIVE RANGE OF PRODUCTS, THE END USERS OF OUR PRODUCTS INCLUDE RESTAURANTS, CAFES, TAKEAWAY STORES, FOOD MANUFACTURERS/PACKERS, DELIS, BUTCHERS, CATERERS AND FRESH FOOD STORES. THE PPG WASHROOM AND JANITORIAL DIVISION PROVIDE EVERYTHING TO KEEP YOUR BUSINESS CLEAN AND HYGIENIC. PPG FOOD PROCESSING PROVIDES THE FRESH MEAT, FISH, POULTRY AND SMALLGOODS SECTOR WITH AN EXTENSIVE RANGE OF QUALITY PRODUCTS. WE DELIVER AN END TO END SOLUTION OF ALL INDUSTRY SPECIFIC PRODUCTS AND CONSUMABLES USED BY OUR CLIENTS.

PB Packaging
Containers and Closures for All Industries

CORPORATE INFORMATION

PRO-PAC PACKAGING LIMITED ACN: 112 971 874 ABN: 36 112 971 874

DIRECTORS

Elliott Kaplan (Chairman)
Ahmed Fahour
Brandon Penn
Dr Gary Weiss

COMPANY SECRETARY

Mark Saus

REGISTERED OFFICE

147 - 151 Newton Road
Wetherill Park NSW 2164

PRINCIPAL PLACE OF BUSINESS

147 - 151 Newton Road
Wetherill Park NSW 2164

SHARE REGISTER

Boardroom Limited
Level 7, 207 Kent Street
Sydney NSW 2000

SOLICITORS

Thomson Geer
Level 25, 1 O'Connell Street
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

STOCK EXCHANGE LISTING

Pro-Pac Packaging Limited shares are listed on the Australian Securities Exchange (ASX code: PPG)

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CHAIRMAN'S REPORT

"...THE ONGOING FOCUS ON CONTINUING TO GROW THE TOP LINE AND ENHANCING THE BOTTOM-LINE PERFORMANCE HAS ENABLED THE COMPANY TO REPORT AN IMPROVED AND PLEASING RESULT."

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 2014.

While the 2014 financial year could be categorised as a year of consolidation - with the integration of the 10 acquisitions made since the beginning of the 2013 financial year and the implementation of major cost reduction strategies - the ongoing focus on continuing to grow the top line and enhancing the bottom-line performance has enabled the Company to report an improved and pleasing result.

In difficult trading conditions revenue grew by 26% to $218 million, approximately half of which was organic growth, and EBITDA increased by 22% to $13.5 million. Profit after tax was up by 19% to $6.1 million. The cost out strategies have started to yield results with administration, distribution and selling expenses reducing year on year from 25.7% to 22.1% as a percentage of sales. However, margins were negatively impacted through a mixture of adverse foreign exchange movements, rising raw material input prices and an increase in lower margin direct drop ship sales.

In addition to organic growth, the Company continues to seek value enhancing acquisition opportunities and a current pipeline of potential acquisitions is under assessment.

A fully franked interim dividend of one cent per share was paid on 20 May 2014 and the Board has also declared a fully franked final dividend of one cent per share.

As I have mentioned on previous occasions, an important element of a growing company is the periodic strengthening and renewal of the Board.

In this regard, in March we were extremely pleased to announce the appointment of Mr Ahmed Fahour as an additional non-executive director. The matter of renewal applies equally to the role of Chairman and having now served as your Chairman over the past four financial years, I have decided to retire from that role at the conclusion of our annual general meeting to be held on 25 November 2014. I am pleased to advise that Mr Fahour has agreed to take on the role of Chairman and the Board has accordingly resolved to appoint Ahmed as Chairman with effect from the conclusion of the 2014 annual general meeting.

I would like to thank my fellow directors for their input and counsel and, on behalf of the Board, I would also like to again express thanks to our hard working and dedicated CEO Brandon Penn, CFO Mark Saus, divisional MD's Wendy Penn and Hadrian Morrall and all the rest of our management team and staff.

Elliott Kaplan

Chairman

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity consisting of Pro-Pac Packaging Limited ("the Company") and entities it controlled for the year ended 30 June 2014.

DIRECTORS

The Directors in office at the date of this report and during the whole of the financial year, other than Mr Fahour who joined the Board on 28 March 2014, 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 ASX listed Mnemon Limited, a non-executive director of Cellnet Limited and a director of a number of unlisted companies. Mr Kaplan is also a former director of DoloMatrix Limited and The Environmental Group Limited.

Mr Kaplan is a member of the Audit and Remuneration Committees.

Ahmed Fahour

B. Econ, MBA

(Non-Executive Director – appointed 28 March 2014)

Mr Fahour was appointed Managing Director and CEO of Australia Post in February 2010. He has held a number of senior executive positions within the finance and banking industries in Australia and overseas and was previously CEO of Citigroup (Australia and New Zealand) and National Australia Bank (Australia), and he is the former chairman of Rip Curl Group. Mr Fahour is currently Executive Chairman of Our Neighbourhood and Star Track, as well as a director of Methodist Ladies' College (Melbourne) and the Carlton Football Club. He is also an Adjunct Professor in the Faculty of Business, Economics and Law at La Trobe University.

Mr Fahour is a member of the Remuneration Committee of Pro-Pac.

Brandon Penn

B. Com

(Executive Director – appointed 16 August 2007)

Mr Penn is the founding director of the PB Group which merged with PPG in 2007. He 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.

On 1 March 2010 Mr Penn was appointed to the position of Group CEO.

Dr Gary Weiss

LL.B (Hons), **LL.M** (with dist.), **Doctor of Juridical Science** (JSD)

(Non-Executive Director – appointed 28 May 2012)

Dr Weiss is Chairman of ClearView Wealth Limited (appointed 22 October 2012) and Secure Parking Pty Ltd (appointed 1 November 2004). He is a Director of Ariadne Australia Limited (appointed 28 November 1989), Premier Investments Limited (appointed 11 March 1994), Ridley Corporation Ltd (appointed 21 June 2010), Mercantile Investment Company Limited (appointed 6 March 2012), Tag Pacific Limited (appointed 1 October 1988) and The Straits Trading Company Limited (appointed 1 June 2014).

Dr Weiss is Chairman of the Audit and Remuneration Committees.

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 27 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. Past 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			
	Opening balance	Additions	Disposals	Closing balance
Elliott Kaplan	216,357	-	-	216,357
Ahmed Fahour	-	10,000,000	-	10,000,000
Brandon Penn	24,438,842	519,975	-	24,958,817
Dr Gary Weiss	-	500,000	-	500,000

	OPTIONS			
	Opening balance	Additions	Disposals	Closing balance
Elliott Kaplan	-	1,200,000	-	1,200,000

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
Elliott Kaplan	8	8	3	3	1	1
Ahmed Fahour	2	2	-	-	-	-
Dr Gary Weiss	8	7	3	3	1	1
Brandon Penn	8	8	-	-	-	-

PRINCIPAL ACTIVITIES

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 end to end solutions for general industrial and primary packaging, safety and PPE, food services and food processing sectors with a national footprint.

OPERATING AND FINANCIAL REVIEW

Momentum in top line growth continued with year on year revenue growing strongly by 26% ($45 million) to $218 million, of which organic growth accounted for approximately 50% of the total increase in sales. Despite continued difficult general industry trading conditions, rising resin and raw material input prices and adverse margin impacts from the material downward movement in the A$/US$ exchange rate during the year, the strategies adopted together with the investment in infrastructure over the past couple of years enabled the Company to record a 22% increase in EBITDA, up from $11.1m in FY13 to $13.5m in FY14. Profit after tax was up 19% to $6.1m.

The focus on cost out strategies has started to yield results with administration, distribution and selling expenses reducing from 25.7% in FY13 to 22.1% as a percentage of sales in FY14.

The Company's balance sheet continues to strengthen with total assets increasing by $12.9m to $164.9m. This growth was partly funded by the issue of 10.5 million shares ($4.5m) and a modest increase in interest bearing debt which increased by $1.4m to $23.9m at 30 June 2014.

Net interest bearing debt to net interest bearing debt plus equity remains relatively low at 16.1%

During the year, 2,150,000 ordinary shares were issued as part of the Employee Long Term Incentive Plan ("ESPP") while 150,000 shares were forfeited and cancelled under the plan. 1,125,000 ESPP shares vested during the year. In addition 10,500,000 shares were issued during the year as approved at a shareholders' meeting. At 30 June 2014 there were 226, 693,758 shares on issue.

During the year the Company completed two niche acquisitions as detailed in note 24 of the financial statements (Business Combinations) to support the Company's continuing strategy of expanding its product and service offering to the food manufacturing and processing industries.

The Company also completed the integration of two facilities in NSW for the Rigid Division's injection moulding facilities, as well as the integration of information systems in the Industrial Division's Queensland operations which will have a favourable effect on the division's operational efficiencies in future trading periods. During the year, a support centre was also established in Malaysia to complement the local infrastructure.

DIVIDENDS

A fully franked interim dividend of one cent per share was paid on 20 May 2014. In August 2014, the Company declared a fully franked final dividend of one cent per share. The record date for determining entitlement to the dividend is 11 September 2014 and the dividend will be paid on 4 November 2014. The Company's Dividend Reinvestment Plan will not apply to this dividend.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

There were no significant events subsequent to balance date.

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 OFFICERS AND THE AUDITOR

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.

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 (AUDITED)

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 Dr Gary Weiss (Chairman), Mr Ahmed Fahour and Mr Elliott Kaplan who are Non-Executive Directors.

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 2014 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 also 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 2014 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 2,680,000 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 2014

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

Remuneration of Key Management Personnel

Excluding the Directors, there are only three 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.

		Short-term benefits		Post employment benefits	Other long term benefits	Share based payment	Total	
		Cash, salary and fees $	Non-monetary benefits $	Super-annuation $	Other $	Equity and options $	$	Performance based %
Elliott Kaplan	2014	60,000	-	5,550	-	12,440	77,990	-
	2013	60,000	-	5,400	-	-	65,400	-
Ahmed Fahour	2014	11,923	-	1,103	-	-	13,026	-
	2013	-	-	-	-	-	-	-
Gary Weiss	2014	46,153	-	4,269	-	-	50,422	-
	2013	51,691	-	4,652	-	-	56,343	-
Hadrian Morrall	2014	200,689	22,980	20,280	-	-	243,949	-
	2013	198,598	22,980	18,109	-	-	239,687	-
Brandon Penn	2014	226,793	-	20,978	-	-	247,771	-
	2013	226,973	-	20,411	-	-	247,384	-
Wendy Penn	2014	185,393	8,000	17,149	-	-	210,542	-
	2013	185,000	8,000	16,685	-	-	209,685	-
Mark Saus	2014	181,196	-	25,000	-	4,667	210,863	-
	2013	186,397	-	18,388	-	2,402	207,187	-
Total Remuneration	**2014**	**912,147**	**30,980**	**94,329**	**-**	**17,107**	**1,054,563**	**-**
	2013	**908,659**	**30,980**	**83,645**	**-**	**2,402**	**1,025,686**	**-**

Options issued as part of remuneration for the year ended 30 June 2014

1,200,000 options were granted to Mr Kaplan as remuneration during the year ended 30 June 2014 as approved by a shareholders' meeting.

Shares and Loans issued under the ESPP during the year ended 30 June 2014

2,150,000 shares and related loans with a total value of $986,800 were issued under the ESPP during the year ended 30 June 2014.

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

	ESPP Shares (number)	ESPP Shares $	ESPP Loans Outstanding $	ESPP Issue Price $	ESPP Expiry Date $
Mark Saus	300,000	137,400	137,400	0.458	21 July 2016
Mark Saus	150,000	69,000	69,000	0.46	24 March 2017
Total	**450,000**	**206,400**	**206,400**		

Option Holdings of Key Management Personnel

1,200,000 options were granted to Mr Kaplan during the year ended 30 June 2014 as approved by a shareholders' meeting.

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 $796,405 (inc. GST) to entities associated with directors Hadrian Morrall and Brandon Penn for property rental and outgoings, based on normal commercial terms and conditions.

This concludes the remuneration report, which has been audited.

SHARE OPTIONS

As at the date of this report (and at the balance date) there were 1,200,000 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.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF THE AUDITOR

There are no officers of the company who are former audit partners of UHY Haines Norton, the auditor of the company.

AUDITORS' INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

UHY Haines Norton continues in office in accordance with section 327 of the *Corporations Act 2001*.

During the year ended 30 June 2014, there were no non-audit services provided by the entity's auditors UHY Haines Norton.

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the year end 30 June 2014 has been received and can be found on page 10 of the Directors' report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors pursuant to section 298 (2) (a) of the *Corporations Act 2001.*

Signed at Sydney on 22 September 2014.

Elliott Kaplan
Chairman

Brandon Penn
Director

AUDITORS' INDEPENDENCE DECLARATION

UNDER SECTION 307C OF THE *CORPORATIONS ACT 2001*

To The Directors of Pro-Pac Packaging Limited

As auditor for the audit of Pro-Pac Packaging Limited for the year ended 30 June 2014, 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.

M.D. Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 22 September 2014.

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. In March 2014, the ASX Corporate Governance Council released its Corporate Governance Principles and Recommendations – 3rd edition. The latter is effective for the financial year ended 30 June 2015 and has not been implemented for this report.

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

In accordance with the above criteria, the following Director is not considered to be independent:

Name	Reason for non-compliance
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.

Messrs Kaplan and Fahour and Dr Weiss are considered to be independent and as such the Company does satisfy Corporate Governance Council Recommendation 2.1 as it does have a majority of independent directors.

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

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

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

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

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

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

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

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

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

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

Name	Term in office
Elliott Kaplan	9 years and 8 months
Brandon Penn	7 years and 1 month
Gary Weiss	2 year and 4 months
Ahmed Fahour	3 months

The Company complied with the following best practice recommendations throughout the financial year ended 30 June 2014:

- having a majority of independent Directors;
- having an independent Chairman for its Audit Committee;

Evaluation of the Board, its committees and directors is undertaken by the Chairman during the course of 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 diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
- Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
- Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole, organisation, women in senior executive positions and women on the board.
- Recommendation 3.5: 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.

CORPORATE GOVERNANCE STATEMENT

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.

Diversity at Pro-Pac

The company respects people as individuals and values their differences. It is committed to creating a working environment that is fair and flexible, promotes personal and professional growth, and benefits from the capabilities of its diverse workforce. The organisation employs people of each gender as well as with varying skills, cultural backgrounds, ethnicity and experience. Pro-Pac believes it's diverse workforce is the key to its continued growth, improved productivity and performance.

The company continually monitors the number of females in executive, manager, supervisory and other roles in the business. A summary of the number of females and males in the company records:

	Women	Men
Executive managers	1	3
Managers	8	23
Staff	161	245
Total	170	271

The company also maintains a flexible working policy to provide flexible working arrangements including part time and working from home. This is to ensure employees with children are able to continue working and meet their home responsibilities. The table below indicates the number of people who have accessed the flexible working arrangement during the year.

	Women	Men
Full time	143	256
Part time	21	4
Casual	6	11
Total	170	271

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 Dr Weiss and Mr Kaplan. 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 although both members are independent.

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

ASX PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURE

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

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

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

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

ASX PRINCIPLE 6 - RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

Pro-Pac has adopted a number of different practices designed to promote effective communication with shareholders as recommended by *ASX Principle 6* and as reflected in the Company's External communications policy, published on its website. These practices include placing on the Pro-Pac website relevant information, including ASX announcements, annual and half-year reports, copies of notices of meetings, analyst briefings and presentations given by the Chairman or Chief Executive 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 22 September 2014.

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: The remuneration committee should be structured.
- Recommendation 8.3: Clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.
- Recommendation 8.4: 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 employment market conditions. To assist in achieving this objective, the Board will link the nature and amount of 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 Dr Weiss (Chairman) and Messrs Kaplan and Fahour. 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 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR TO 30 JUNE 2014

	Notes	Consolidated 2014 $000's	Consolidated 2013 $000's
Revenue			
Sale of goods		218,273	173,131
Other income		415	234
Interest income		74	62
Total Revenue		218,762	173,427
Expenses			
Raw materials and consumables used		144,405	108,733
Employee benefits expense		33,558	28,054
Other expenses from ordinary activities		11,025	11,316
Distribution costs		8,067	6,220
Occupancy costs		7,531	6,228
Depreciation expense	12	3,128	2,747
Finance costs		1,372	839
Rationalisation and relocation expenses		600	1,740
Amortisation of prepaid royalty	15	322	322
Total Expenses		210,008	166,199
Profit before income tax from continuing operations		8,754	7,228
Income tax expense	5	(2,623)	(2,074)
Profit after income tax expense for the year		6,131	5,154
Other comprehensive income net of tax		-	-
Total comprehensive income for the year		6,131	5,154
Earnings per share (cents per share)			
- Basic earnings per share	6	2.91	2.46
- Diluted earnings per share	6	2.88	2.44

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	Notes	Consolidated 30 June 2014 $000's	Consolidated 30 June 2013 $000's
Assets			
Current assets			
Cash and cash equivalents	8	**3,580**	**2,247**
Trade and other receivables	10	**35,592**	**30,645**
Inventories	11	**34,235**	**28,091**
Prepayments	15	**3,399**	**3,125**
Total current assets		**76,806**	**64,108**
Non-current assets			
Property, plant and equipment	12	**16,962**	**17,610**
Intangible assets	13	**68,793**	**67,867**
Deferred tax assets	14	**2,323**	**2,101**
Prepayments	15	**28**	**350**
Total non-current assets		**88,106**	**87,928**
TOTAL ASSETS		**164,912**	**152,036**
Liabilities			
Current liabilities			
Trade and other payables	17	**30,385**	**24,681**
Interest bearing trade finance	18	**2,559**	**2,036**
Borrowings	18	**1,550**	**1,666**
Provisions	19	**3,705**	**3,651**
Current tax liabilities	5	**648**	**569**
Total current liabilities		**38,847**	**32,603**
Non-current liabilities			
Other payables	17	**-**	**2,625**
Borrowings	18	**19,791**	**18,780**
Provisions	19	**773**	**695**
Total non-current liabilities		**20,564**	**22,100**
TOTAL LIABILITIES		**59,411**	**54,703**
NET ASSETS		**105,501**	**97,333**
EQUITY			
Issued Capital	20	**91,548**	**85,285**
Reserves		**99**	**71**
Retained earnings		**13,854**	**11,977**
TOTAL EQUITY		**105,501**	**97,333**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR TO 30 JUNE 2014

	Notes	Consolidated 2014 $000's	Consolidated 2013 $000's
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		217,434	176,071
Payments to suppliers and employees (inclusive of GST)		(208,256)	(167,194)
Interest received		74	62
Finance costs		(1,448)	(777)
Income tax paid		(2,766)	(2,353)
Relocation, restructuring and business combination costs		(600)	(1,740)
Net cash flows provided by operating activities	9	4,438	4,069
Cash flows from investing activities			
Payments for property, plant and equipment		(2,872)	(2,938)
Proceeds from sale of property, plant and equipment		377	61
Payments for unincorporated businesses net of cash acquired		(1,051)	(10,907)
Working capital for businesses acquired		(3,062)	(5,839)
Net cash flows (used) in investing activities		(6,608)	(19,623)
Cash flows from financing activities			
Payment of hire purchase and finance lease liabilities		(2,091)	(2,040)
Finance leases raised		1,803	1,267
Proceeds from borrowing		1,783	18,886
Proceeds from issue of shares		4,515	-
Proceeds from vesting of ESPP shares		368	-
Dividend paid		(2,875)	(4,223)
Net cash flows provided by financing activities		3,503	13,890
Net increase/(decrease) in cash and cash equivalents		1,333	(1,664)
Cash and cash equivalents at beginning of financial year		2,247	3,911
Cash and cash equivalents at end of financial year	8	3,580	2,247
Non-cash financing transactions			
Hire purchase and finance lease liabilities raised		1,803	1,267
Issue of shares for dividend re-investment plan		1,380	-

The above statements of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR TO 30 JUNE 2014

	Issued capital $000's	Retained earnings $000's	Option reserve $000's	Total equity $000's
Consolidated				
Balance as at 30 June 2012	**85,285**	**11,046**	**56**	**96,387**
Dividend paid	-	(4,223)	-	(4,223)
Recognition of share based payments	-	-	15	15
Total comprehensive income for the year	-	5,154	-	5,154
Balance as at 30 June 2013	**85,285**	**11,977**	**71**	**97,333**
Issue of shares for dividend re-investment plan	1,380	-	-	1,380
Dividend paid	-	(4,254)	-	(4,254)
Recognition of share based payments	-	-	28	28
Vesting of ESPP shares	368	-	-	368
Shares issued under share placement	4,515	-	-	4,515
Total comprehensive income for the year	-	6,131	-	6,131
Balance as at 30 June 2014	**91,548**	**13,854**	**99**	**105,501**

The above statements of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR TO 30 JUNE 2014

NOTE 1: CORPORATE INFORMATION

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2014 was approved for issue in accordance with a resolution of the Directors on 18 September 2014.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

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 mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant 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 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The application of AASB 10 does not impact the current or prior year consolidation of the controlled entities within the group.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

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

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

(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 been prepared on an accruals basis and unless otherwise stated 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 is disclosed in note 29.

(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) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pro-Pac Packaging Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Pro-Pac Packaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

(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 and equity instruments issued or liabilities incurred by the acquirer to former owners of 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 to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

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 the fair value of the consideration transferred 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.

(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.

Depreciation rates used for each class of assets vary to the estimated useful lives at the time of acquisition, and are typically:

Class of fixed asset	Depreciation rates	Method
Plant and equipment	7.5% - 33%	Straight-line and diminishing value
Motor vehicles	20% - 25%	Straight-line and diminishing value
Computer equipment	20% - 40%	Straight-line and diminishing value
Furniture and Fittings	5% - 20%	Straight-line and diminishing value
Office equipment	10% - 25%	Straight-line and diminishing value

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of profit or loss and other comprehensive income in the year the item is de-recognised. Low value fixed assets are written off at 100%.

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

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 at the reporting date 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 30-60 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 flows, 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, lease assets are established at the fair value of the leased assets or, if lower, the present value of minimum lease payments 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.

(r) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

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

Pro-Pac Packaging Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

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

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at the 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-derivative 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 the Group's 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 profit or loss and other comprehensive income. PPG Service SDN BHD, a wholly owned subsidiary, operates in Malaysia. The profit and loss results are translated at the average AUD:MYR foreign exchange rate for the year ended 30 June 2014, with the balance sheet being translated at the spot rate prevailing as at the reporting date.

(w) Critical Accounting estimates and judgements

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

Key estimates

(i) Impairment

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

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

Key Judgements

(i) Provision for impairment of receivables

Current trade and term receivables are non-interest bearing loans and generally on 30-60 days terms. 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.

ii) Provision for stock obsolescence

Management has recently reviewed the aged inventory policy and has created an aged stock schedule. The ageing schedule reflects the age of the stocks and a percentage is applied to the ageing groups. Based on experience and market knowledge, Pro-Pac believes that the percentages assigned are a fair and reasonable basis for formulating the inventory provision for obsolescence.

(x) Rounding of amounts

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.

(y) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to

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

be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

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. All inter-segment loans payable and receivable are eliminated on consolidation for the Group's financial statements.

Segment Assets

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

Unless indicated otherwise in the assets role, investments in financial assets, deferred tax assets 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.

NOTE 3: OPERATING SEGMENTS (CONT.)

	Rigid packaging $ 000's 2014	Industrial packaging $ 000's 2014	Intersegment eliminations / unallocated $ 000's 2014	Total $ 000's 2014	Rigid packaging $ 000's 2013	Industrial packaging $ 000's 2013	Intersegment eliminations / unallocated $ 000's 2013	Total $ 000's 2013
(i) Segment performance								
12 months ended 30 June								
Revenue								
External sales	53,653	164,620	-	218,273	51,815	121,316	-	173,131
Inter-segment sales	9,247	8,989	(18,236)	-	7,687	8,338	(16,025)	-
Total segment revenue	62,900	173,609	(18,236)	218,273	59,502	129,654	(16,025)	173,131
EBITDA	6,372	9,705	(2,575)	13,502	6,724	7,349	(2,999)	11,074
Depreciation & amortisation	(1,502)	(1,775)	(173)	(3,450)	(1,427)	(1,498)	(144)	(3,069)
Interest revenue				74				62
Finance costs				(1,372)				(839)
Profit before income tax				8,754				7,228
Income tax expense				(2,623)				(2,074)
Profit after income tax				6,131				5,154
(ii) Segment assets								
As at 30 June								
Segment assets	46,442	113,047	-	159,489	45,538	103,257	-	148,795
Reconciliation of segment assets to group assets								
Inter-segment eliminations				(1,463)				(1,497)
Unallocated assets				6,886				4,738
– Deferred tax assets				2,323				2,101
– Other				4,563				2,637
Total group assets from continuing operations				164,912				152,036
(iii) Segment liabilities								
As at 30 June								
Segment liabilities	11,314	28,109	-	39,423	10,479	27,846	-	38,325
Reconciliation of segment liabilities to group liabilities								
Inter-segment eliminations				(1,538)				(1,451)
Unallocated liabilities				21,526				17,829
– Deferred tax liabilities				-				-
– Other liabilities				21,526				17,829
Total group liabilities from continuing operations				59,411				54,703

(iv) Pro-Pac Packaging Limited have an operation, PPG Services SDN BHD, which is a company incorporated in Malaysia. This company provides support services for all Group companies. The financial statements for this company are prepared under Malaysian Financial Reporting Standards, which are compliant with International Financial Reporting Standards.

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 4: EXPENSES

Profit before income tax includes the following expenses:

Bad and doubtful debts – trade	**226**	**110**
Rental expense on operating leases:		
- minimum lease payments	**6,908**	**5,949**

NOTE 5: INCOME TAX

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

Current income tax		
Current income tax charge	**2,807**	**2,398**
Adjustments in respect of previous years	**38**	**(17)**
Adjustments in respect of permanent differences	**(1)**	**(94)**
Deferred income tax		
Relating to temporary differences	**(221)**	**(213)**
Income tax expense in statement of profit or loss and other comprehensive income	**2,623**	**2,074**

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 2014 is as follows:

Accounting profit before tax	**8,754**	**7,228**
At the statutory income tax rate of 30%	**2,626**	**2,168**
Which is adjusted by the tax effect of:		
Different rates of tax on overseas income	**(2)**	**-**
Adjustments in respect of permanent differences	**(1)**	**(94)**
At effective income tax rate of 30.0% (2013: 28.7%)	**2,623**	**2,074**
Income tax expense reported in statement of profit or loss and other comprehensive income	**2,623**	**2,074**

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 2014 and 30 June 2013.

Current tax liability	**648**	**569**

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 2014	Consolidated 2013
Net profit attributable to equity holders ($000's)	6,131	5,154
Weighted average number of ordinary shares for basic earnings per share	210,854,244	209,452,804
Basic earnings per share (cents per share) *	2.91	2.46
Diluted earnings per share (cents per share) *	2.88	2.44

*The difference between basic and diluted shares on issue represents the PPG Executive Long Term Incentive Plan (ESPP) shares on issue which are treated as an option grant.

NOTE 7: DIVIDENDS PAID AND PROPOSED

On 22 August 2014, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlements to the dividend is 11 September 2014 and the dividend will be paid on 4 November 2014. The Company's Dividend Reinvestment Plan did not apply to the final dividend. When combined with PPG's interim dividend of 1.0 cent, paid on 20 May 2014, this brings total fully franked dividends for the 2013/14 financial year to 2.0 cents per share.

	2014 $000's	2013 $000's
Declared and paid during the year:		
Final dividend for 2013 – 1 cent per ordinary share (2012 – 1 cent per ordinary share)	2,122	2,111
Interim dividend for 2014 – 1 cents per ordinary share (2013 – 1 cent per ordinary share)	2,132	2,112
	4,254	4,223
Proposed for approval at the Directors Meeting (not recognised as a liability as at 30 June):		
Final dividend for 2014 – 1 cent per ordinary share (2013 – 1 cent per ordinary share)	2,267	2,122
Franking credits		
Franking credits available for subsequent financial years based on a tax rate of 30%	13,968	13,025

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 8: CASH AND CASH EQUIVALENTS

Cash at bank and in hand	3,580	2,247

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates

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	3,580	2,247

NOTE 9: CASH FLOW INFORMATION

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

Net profit after tax	6,131	5,154
Add/(Less) non-cash items:		
Depreciation and amortisation of plant and equipment	3,128	2,727
Amortisation of pre-paid royalty	322	322
(Profit)/Loss on disposal of assets	108	69
Movement in income tax provision	78	95
Movement in deferred tax assets and liabilities	(221)	(542)
Movement in provision for bad debts	183	(54)
Other non-cash movements	34	29
Changes in assets and liabilities:		
Receivables	(3,831)	941
Inventories	(4,450)	(1,772)
Payables	3,137	(1,558)
Provisions	92	414
Prepayments	(273)	(1,756)
Net cash flows from operating activities	4,438	4,069

b) Non-cash financing and investing activities

During the year, the consolidated Group acquired plant with an aggregate value of $1,803,090 (2013: $1,267,451) by means of finance leases.

c) Credit standby arrangements with banks

Credit facility	1,500	1,500
Amount utilised	-	-
Loan facilities	29,750	28,100
Amount utilised	23,659	21,525

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 10: TRADE AND OTHER RECEIVABLES

Current:		
Trade receivables	34,784	29,767
Provision for impairment of receivables	(510)	(338)
Other debtors	1,318	1,216
Total current receivables	35,592	30,645
Movements in the provision for impairment of receivables are as follows:		
Opening balance	(338)	(309)
Additional provision recognised	(398)	(139)
Receivables written off during the year as uncollectable	226	110
Closing balance	(510)	(338)

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 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 below table) are considered to be of high credit quality.

	Gross amount $000's	Past due and 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					
2014					
Trade and term receivables	34,784	510	346	1,656	32,272
Other receivables	1,318	-	-	-	1,318
Total	36,102	510	346	1,656	33,590
2013					
Trade and term receivables	29,767	338	325	2,163	26,941
Other receivables	1,216	-	-	-	1,216
Total	30,983	338	325	2,163	28,157

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. The consolidated entity did not consider a credit risk on the aggregate balance that are past due but not impaired based on recent collection practices.

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 11: INVENTORIES

Raw materials	985	983
Finished goods	33,250	27,108
Total inventories	34,235	28,091

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

At 30 June		
Plant and equipment		
At cost	28,670	27,787
Accumulated depreciation	(11,708)	(10,177)
Total property, plant and equipment	16,962	17,610

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.

	2014 $000's	2014 $000's	2014 $000's	2014 $000's	2014 $000's	2014 $000's
	Plant and Equipment	Motor Vehicles	Computer Equipment	Furniture & Fittings	Office Equipment	Total
Balance at the beginning of the year	13,722	2,376	681	386	445	17,610
Additions arising from business acquisitions during the year	100	-	-	-	-	100
Additions	1,874	651	308	22	17	2,872
Disposals	(288)	(204)	-	-	-	(492)
Depreciation charge for the year	(2,079)	(628)	(315)	(46)	(60)	(3,128)
Carrying amount at the end of the year	13,329	2,195	674	362	402	16,962

	2013 $000's	2013 $000's	2013 $000's	2013 $000's	2013 $000's	2013 $000's
	Plant and Equipment	Motor Vehicles	Computer Equipment	Furniture & Fittings	Office Equipment	Total
Balance at the beginning of the year	11,200	2,322	604	410	385	14,921
Additions arising from business acquisitions during the year	2,576	11	42	-	-	2,629
Additions	1,895	545	330	44	124	2,938
Disposals	(58)	(46)	(1)	(21)	(5)	(131)
Depreciation charge for the year	(1,891)	(456)	(294)	(47)	(59)	(2,747)
Carrying amount at the end of the year	13,722	2,376	681	386	445	17,610

	Notes	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 13: INTANGIBLE ASSETS

	Notes	Consolidated 2014 $000's	Consolidated 2013 $000's
Goodwill			
Carrying amount at beginning of the year		67,867	56,226
Acquisition through business combinations	24	926	11,641
Closing value		68,793	67,867
At 30 June			
Gross		68,793	67,867
Accumulated impairment losses		-	-
Net carrying value		68,793	67,867

Impairment Test for Goodwill

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

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

NOTE 14: DEFERRED TAX ASSETS

	Notes	Consolidated 2014 $000's	Consolidated 2013 $000's
Deferred tax assets			
Deferred tax assets comprise:			
Provisions and other timing differences		2,189	1,940
Transactions costs on equity issue		134	161
		2,323	2,101
Reconciliation of gross movements			
The overall movement in the deferred tax account is as follows:			
Opening balance		2,101	1,559
Tax effect of AL and LSL on acquisitions		-	235
Other permanent differences brought to account		1	94
Charge to statement of comprehensive income		221	213
Closing balance		2,323	2,101
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 1 July		1,940	1,338
Reclassification		(27)	-
Credit/(charge) to statement of comprehensive income		276	602
At 30 June		2,189	1,940
Transaction cost to equity issue at 1 July		161	221
Tax effect of share issue cost		11	-
Reclassification		27	-
Charge to statement of comprehensive income		(65)	(60)
At 30 June		134	161

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 15: PREPAYMENTS

	Consolidated 2014 $000's	Consolidated 2013 $000's
(a) Current prepayments		
Other prepayments	3,077	2,803
Prepaid royalty	322	322
Total current prepayments	3,399	3,125
(b) Non-current prepayments		
Prepaid royalty	28	350
Total non-current prepayments	28	350

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 2014 amounted to $322,082 (2013: $322,082).

NOTE 16: EMPLOYEE BENEFITS

Executive Long Term Incentive Plan

In March 2005 the Company established an ESPP (Executive Long Term Incentive Plan) 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 2,150,000 shares were issued to staff and executives under the ESPP while 1,125,000 were exercised and 150,000 were forfeited and cancelled. At the end of the year 2,680,000 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.

NOTE 16: EMPLOYEE BENEFITS (CONT.)

- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions: expected volatility, risk-free interest rate, expected life of option, share price, dividend yield and probability of achievement.
- Under Australian Accounting Standards, shares issued to executives under the Long Term Executive Incentive Plan are now considered to be options granted. Comparative figures for the prior financial year have been adjusted accordingly.

Grant Date	Expiry Date	Price	Balance at beginning of year	Granted	Exercised	Expired/ forfeited	Balance at end of year
2014							
30/08/10	30/08/13	0.325	1,175,000		1,125,000	50,000	-
05/04/12	04/04/15	0.500	200,000				200,000
17/10/12	16/10/15	0.485	430,000			100,000	330,000
22/07/13	21/07/16	0.458		1,100,000			1,100,000
25/03/14	24/03/17	0.460		1,050,000			1,050,000
			1,805,000	**2,150,000**	**1,125,000**	**150,000**	**2,680,000**
2013							
30/08/10	30/08/13	0.325	1,325,000			150,000	1,175,000
12/04/11	11/04/14	0.325	10,000			10,000	-
05/04/12	04/04/15	0.500	200,000				200,000
17/10/12	16/10/15	0.485		430,000			430,000
			1,535,000	**430,000**	**-**	**160,000**	**1,805,000**

NOTE 17: TRADE AND OTHER PAYABLES

	Consolidated 2014 $000's	Consolidated 2013 $000's
Current		
Unsecured:		
Trade payables	**18,222**	**15,355**
GST payable	**741**	**808**
Other tax payable	**672**	**525**
Sundry creditors and accruals	**6,760**	**4,431**
Contingent deferred payments to vendors for acquisitions	**3,990**	**3,562**
	30,385	**24,681**
Non-current		
Unsecured:		
Contingent deferred payments to vendors for acquisitions	**-**	**2,625**
	-	**2,625**

Trade 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.

PRO-PAC PPG

	Consolidated 2014 $000's	Consolidated 2013 $000's

NOTE 18: INTEREST BEARING LOANS AND BORROWINGS

Current		
Finance lease and hire purchase (see note 25)	1,550	1,666
Trade finance	2,559	2,036
Bank loan (secured)	-	-
	4,109	3,702
Non-current		
Finance lease and hire purchase (see note 25)	1,696	1,869
Bank loan (secured)	18,095	16,911
	19,791	18,780

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

b) The bank loan is subject to the following covenants:
 i) it will ensure that for each 2 consecutive reporting periods ending 30 June and 31 December, the ratio of EBITDA to total debt service will not fall below 2.00:1 and further ensure that the ratio of EBITDA to total debt service will not fall below 1.50:1 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) In respect of the 2015 financial year, the bank loan is subject to the following covenants on a 12 month rolling basis:
 i) the Interest Coverage Ratio for the Group will at all times be greater than 4.00:1;
 ii) the Gross Leverage Ratio for the Group will at all times not be greater than 3.00:1; and
 iii) the Net Tangible Asset Cover Ratio for the Group will at all times be greater than 1.50:1.

d) The bank loan facility is subject to review on 31 July 2016.

NOTE 19: PROVISIONS

Current		
Employee entitlements		
Opening balance	3,651	2,597
Arising on acquisition of business combinations	20	686
Additional provisions	2,236	2,138
Amount used	(2,202)	(1,770)
Closing balance	3,705	3,651
Non-current		
Employee entitlements		
Opening balance	695	498
Arising on acquisition of business combinations	21	150
Additional provisions	315	159
Amount used	(258)	(112)
Closing balance	773	695

NOTE 19: PROVISIONS (CONT.)

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

	Consolidated 2014 $000's	Consolidated 2013 $000's
NOTE 20: ISSUED CAPITAL		
Ordinary shares		
Issued and fully paid	91,548	85,285

Movement in ordinary shares on issue	Number	$000's
Balance at 1 July 2012	210,987,804	85,285
Issue of shares under the Executive Long Term Incentive Plan	430,000	-
Cancellation of shares under Executive Long Term Incentive Plan	(160,000)	-
Balance at 30 June 2013	211,257,804	85,285
Vesting of ESPP shares	-	368
Issue of shares for Executive Long Term Incentive Plan	2,150,000	-
Cancellation of shares for Executive Long Term Incentive Plan	(150,000)	-
Issue of shares	10,500,000	4,515
Issue of shares under the dividend re-investment plan	2,935,954	1,380
Balance at 30 June 2014	226,693,758	91,548

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.

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 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 2013 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 2.5%.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from purchases by the operating unit in currencies other than the unit's measurement currency which accounted for 39.9% of purchases of materials and capital items.

Commodity price risk

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

Credit risk

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

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

Liquidity risk

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

NOTE 22: FINANCIAL INSTRUMENTS

Unless otherwise stated the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

NOTE 22: FINANCIAL INSTRUMENTS (CONT.)

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
	2014 $000's	2014 $000's	2014 $000's	2014 $000's	2014 %
Consolidated					
(i) Financial assets					
Cash assets	3,569	-	11	3,580	2.5
Receivables	-	-	35,592	35,592	
Total financial assets	3,569	-	35,603	39,172	
(ii) Financial liabilities					
Finance leases (current)	-	1,550	-	1,550	7.9
Finance leases (non-current)	-	1,696	-	1,696	7.9
Trade finance (current)	2,559			2,559	5.7
Bank loans (current)	-	-	-	-	5.7
Bank loans (non-current)	18,095	-	-	18,095	5.7
Payables (current)	-	-	30,385	30,385	
Total financial liabilities	20,654	3,246	30,385	54,285	
Net financial assets/(liabilities)	(17,085)	(3,246)	5,218	(15,113)	

There is no interest rate applicable on receivables or payables.

	2013 $000's	2013 $000's	2013 $000's	2013 $000's	2013 %
Consolidated					
(i) Financial assets					
Cash assets	2,237	-	10	2,247	3.1
Receivables	-	-	30,645	30,645	
Total financial assets	2,237	-	30,655	32,892	
(ii) Financial liabilities					
Finance leases (current)	-	1,666	-	1,666	7.8
Finance leases (non-current)	-	1,869	-	1,869	7.8
Trade finance (current)	2,036			2,036	5.6
Bank loans (current)	-	-	-	-	5.6
Bank loans (non-current)	16,911	-	-	16,911	5.6
Payables (current)	-	-	24,681	24,681	
Total financial liabilities	18,947	3,535	24,681	47,163	
Net financial assets/(liabilities)	(16,710)	(3,535)	5,974	(14,271)	

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 2014	Less than one year $000's	Between 1 and 2 years $000's	Between 2 and 3 years $000's	Between 3 and 4 years $000's	Between 4 and 5 years $000's	More than 5 years $000's	Total $000's
Consolidated							
Cash assets	3,569	-	-	-	-	-	3,569
Trade Finance	2,559	-	-	-	-	-	2,559
Finance leases	1,550	890	559	189	40	18	3,246
Bank loans	-	18,095	-	-	-	-	18,095

Year ended 30 June 2013	Less than one year $000's	Between 1 and 2 years $000's	Between 2 and 3 years $000's	Between 3 and 4 years $000's	Between 4 and 5 years $000's	More than 5 years $000's	Total $000's
Consolidated							
Cash assets	2,237	-	-	-	-	-	2,237
Trade Finance	2,036	-	-	-	-	-	2,036
Finance leases	1,666	1,160	470	215	24	-	3,535
Bank loans	-	16,911	-	-	-	-	16,911

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 the 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
2014		
+/- 1% in interest rates	+/- 196	+/- 196
+/- 10% in AUD / USD	+/- 6,689	+/- 6,689
2013		
+/- 1% in interest rates	+/- 89	+/- 89
+/- 10% in AUD / USD	+/- 4,267	+/- 4,267

NOTE 23: CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 2. The financial years of all controlled entities are the same as that of the parent entity.

	Country of Incorporation	Class of Shares	Equity Holding 2014	Equity Holding 2013
Direct Controlled Entities:				
Pro-Pac Group Pty Ltd	Australia	Ordinary	100%	100%
Plastic Bottles Pty Ltd	Australia	Ordinary	100%	100%
PPG Services SDN BHD	Malaysia	Ordinary	100%	-
Controlled Entities owned 100% by Pro-Pac Group Pty Ltd				
Pro-Pac Packaging (Aust) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac (GLP) Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Plastic Bottles Pty Ltd				
Specialty Products and Dispensers Pty Ltd	Australia	Ordinary	100%	100%
Australian Bottle Manufacturers Pty Ltd	Australia	Ordinary	100%	100%
Ctech Closures Pty Ltd	Australia	Ordinary	100%	100%
Bev Cap Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Pro-Pac Packaging (Aust) Pty Ltd				
Pro-Pac Packaging Manufacturing (Syd) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Melb) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Bris) Pty Ltd	Australia	Ordinary	100%	100%
Creative Packaging Pty Ltd	Australia	Ordinary	100%	100%
Controlled Entities owned 100% by Bev-Cap Pty Ltd				
Great Lakes Moulding Pty Ltd	Australia	Ordinary	100%	100%
Finpact (Pty) Ltd	Australia	Ordinary	100%	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

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').

As parent entity, Pro-Pac Packaging Limited and other group entities, Pro-Pac Group Pty Ltd and Plastic Bottles Pty Ltd as disclosed above are party to the deed of cross guarantee, the Statement of Profit and Loss and Other Comprehensive Income and the Statement of Financial Position of the entities that are party to the deed of cross guarantee are as presented in the Consolidated Statement of Profit and Loss and Other Comprehensive Income on page 17 and Consolidated Statement of Financial Position presented on page 18. PPG Services SDN BHD does not form part of the deed of cross guarantee. The impact on the net assets and profit for the year of the Group is not considered to be material.

NOTE 24: BUSINESS COMBINATIONS

Acquisition of businesses

The Group acquired the business and assets of the following:

Effective date	Acquired	Location	Business Description
01/08/2013	Fast Labels	Sydney	Niche label manufacturer
14/02/2014	Australian Film Manufacturers	Brisbane	Niche film importer and distributor

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

	Fair Value $000's
Assets	
Current assets	
Other receivables	**66**
Total current assets	**66**
Non-current assets	
Property, plant and equipment	**100**
Total non-current assets	**100**
Total Assets	**166**
Liabilities	
Current liabilities	
Trade and other payables	**20**
Total current liabilities	**20**
Non-current liabilities	
Other liabilities	**21**
Total non-current liabilities	**21**
Total Liabilities	**41**
NET ASSETS	**125**
Consideration Paid	
Cash	**1,051**
Total	**1,051**
GOODWILL	**926**
Acquisition costs expensed to profit or loss	**39**

NOTE 24: BUSINESS COMBINATIONS (CONT.)

Part of the Groups business plan is to grow through both organic growth and acquisitions. Acquisitions are undertaken to expand the product offering and the sectors in which the Group operates. The Fast Labels acquisition was integrated into Pro-Pac Packaging Manufacturing (Syd) Pty Ltd and Australian Film Manufacturers acquisition was integrated into Pro-Pac Packaging (Aust) Pty Ltd.

Goodwill comprises inter alia the loyalty attached to trading names and brands acquired, contracts secured with major customers and established chains of supply.

For the year ended 30 June 2014, the acquired business contributed the following earnings to the consolidated Group.

	Acquisition to 30 June 2014 Revenue $000's	Acquisition to 30 June 2014 Profit before income tax $000's	Annualised to 30 June 2014 Revenue $000's	Annualised to 30 June 2014 Profit before income tax $000's
Fast Labels	773	153	843	167
Australian Film Manufacturers	1,256	-	2,740	-
Total business acquisitions	**2,029**	**153**	**3,583**	**167**

Cash used to acquire businesses	
Cash consideration paid	1,051
Less: Cash and cash equivalents acquired	-
Total	**1,051**

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 2014 $000's	Consolidated 2013 $000's
Within one year	4,292	4,565
After one year but not more than five years	9,538	10,819
More than five years	-	1,272
	13,830	16,656

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:

	2014 Minimum payments $000's	2014 Present value of payments $000's	2013 Minimum payments $000's	2013 Present value of payments $000's
Within one year	1,718	1,550	1,857	1,666
After one year but not more than five years	1,823	1,696	1,996	1,869
Total minimum lease payments	3,541	3,246	3,853	3,535
Less amounts representing future finance charges	(295)	-	(318)	-
Present value of minimum lease payments	3,246	3,246	3,535	3,535

	2014 $000's	2013 $000's
Representing lease liabilities		
Current	1,550	1,666
Non-current	1,696	1,869
	3,246	3,535

The weighted average interest rate implicit in the leases is 7.9%.

Contingent Liability

As at statement of financial position date, the Company issued security deposit guarantees and standby letters of credits to the value of $1,673,781 (2013: $674,780) to the landlords of rented premises and overseas suppliers.

NOTE 25: COMMITMENTS AND CONTINGENCIES (CONT.)

Capital Expenditure Commitments

As at statement of financial position date the Company had commitments for future capital expenditure of $318,729 (2013: $158,170).

	Consolidated 2014 $000's	Consolidated 2013 $000's
Capital commitments - Property, plant and equipment		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	**318,729**	**158,170**
One to five years	**-**	**-**
	318,729	**158,170**

NOTE 26: IMPAIRMENT TESTING OF GOODWILL

Carrying amount of goodwill		
Carrying amount of goodwill Industrial Division	**46,698**	**45,772**
Carrying amount of goodwill Rigid Division	**22,095**	**22,095**
Total carrying amount of goodwill	**68,793**	**67,867**

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 growth 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) 6.7% pre-tax discount rate; (2013: 11.0%)

b) 5.0% for industrial division (2013: 5.5%) and 2.2% for rigid division (2013: 2.2%) per annum projected revenue growth rate;

c) 5.0% for industrial division (2013: 5.5%) and 2.2% for rigid division (2013: 2.2%) per annum increase in operating costs and overheads.

The discount rate of 6.7% 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.

Sensitivity

The directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill may vary in the carrying amount. The sensitivities are as follows:

a) the discount rate would need to increase to 11.0% for the Industrial division and to 15.0% for the Rigid division before goodwill would be impaired. A rate of 6.7% was used in the assessment of goodwill.

b) the EBITDA growth rate would need to decrease to negative 3.5% in the Industrial division and to negative 8.0% in the Rigid division before goodwill would be impaired. EBITDA growth rates of 3% and 2.2% respectively, were used in the assessment of goodwill for the Industrial and Rigid divisions respectively.

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 Key Management Personnel

The Company or members of the Group have entered into the following agreements with the following Key Management Personnel or entities related to them: Hadrian Morrall and Brandon Penn.

	Consolidated 2014 $	Consolidated 2013 $
Hadrian Morrall		
• Remuneration paid	**243,949**	**239,687**
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	**796,405**	**796,405**
– 9 Widemere Road, Wetherill Park, NSW	**581,505**	**581,505**
– Unit 15/129 Robinson Road, Geebung, QLD	**125,203**	**125,203**
– 32 Hinkler Road, Mordialloc, VIC	**89,697**	**89,697**
Brandon Penn		
• Remuneration paid	**247,771**	**247,384**
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	**796,405**	**796,405**
– 9 Widemere Road, Wetherill Park, NSW	**581,505**	**581,505**
– Unit 15/129 Robinson Road, Geebung, QLD	**125,203**	**125,203**
– 32 Hinkler Road, Mordialloc, VIC	**89,697**	**89,697**

Total payments to related parties during the year ended 30 June 2014 was $1,288,125 (2013: $1,283,476).

NOTE 28: KEY MANAGEMENT PERSONNEL DISCLOSURE

Key Management Personnel at 30 June 2014

Elliott Kaplan	Non-executive Chairman
Ahmed Fahour	Non-executive Director
Dr Gary Weiss	Non-executive Director
Brandon Penn	Executive Director
Hadrian Morrall	Divisional Managing Director
Wendy Penn	Divisional Managing Director
Mark Saus	Chief Financial Officer and Company Secretary

Remuneration of Key Management Personnel

Excluding the Directors, there are only three staff members of the Company who qualify as “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. For more details refer to the remuneration report as included in directors’ report.

NOTE 29: PARENT ENTITY INFORMATION

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

	Parent 2014 $'000	Parent 2013 $'000
Profit for the year	5,788	4,237
Total comprehensive income	5,788	4,237
Total current assets	591	1,214
Total assets	93,104	87,822
Total current liabilities	1,535	2,513
Total liabilities	1,535	2,513
Equity		
Contributed equity	91,548	85,285
Reserves	-	-
Retained profits/(accumulated losses)	21	24
Total equity	91,569	85,309

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 30: EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 22 August 2014, the Company declared a fully franked final dividend of one cent per share. For details refer to the Directors' Report on page 5.

	Consolidated 2014 $000's	Consolidated 2013 $000's
NOTE 31: AUDITORS' REMUNERATION		
Amounts paid or due payable to UHY Haines Norton for:		
– audit or review of the financial report and half-year financial report	112,000	109,000

NOTE 32: 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 2014. The Group does not at this time believe these have any material impact on the 2014 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 17 to 50, are in accordance with the *Corporations Act 2001* and:
   a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
   b) give a true and fair view of the consolidated entity's financial position at 30 June 2014 and of its performance for the year ended on that date;
   c) comply with International Financial Reporting Standards as disclosed in Note 2 (c) to the financial statements.

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

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

4. At the date of this declaration, there are reasonable grounds to believe that the entities that are party to the deed of cross guarantee as described in note 23 to the financial statements will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Board of Directors pursuant to section 295 (5) (a) of the *Corporations Act 2001*.

On behalf of the Board on 22 September 2014.

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 Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other 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 controls as the directors determine are necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatements, whether due to fraud or error.

In Note 2(c), 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 of the financial report that gives a true and fair view 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 Limited, 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 2014 and of its performance for the year ended on that date; and

   ii. complying with the 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(c).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 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.

Opinion

In our opinion, the Remuneration Report of Pro-Pac Packaging Limited, for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

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

Signed at Sydney on 22 September 2014.

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 9 September 2014.

(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	89	10,306	0.005
1,001-5,000	113	362,859	0.160
5,001-10,000	123	986,202	0.435
10,001-100,000	709	28,145,799	12.416
100,001 and over	133	197,188,592	86.985
Totals	**1,167**	**226,693,758**	**100.00**

There are ninety holders of unmarketable parcels totalling 11,346 shares representing 0.005% 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	Number	%
1	BENNAMON PTY LTD	110,304,272	48.66
2	MR BRANDON ARI PENN	22,279,165	9.83
3	AUST EXECUTOR TRUSTEES LTD <LANYON AUST VALUE FUND>	15,340,901	6.77
4	EQUITAS NOMINEES PTY LIMITED <PB-600762 A/C>	10,000,000	4.41
5	BNP PARIBAS NOMS PTY LTD <DRP>	3,673,951	1.62
6	MR BRANDON PENN & MRS WENDY PENN <CARLTASHA DISCRETIONRY A/C>	2,297,872	1.01
7	NATIONAL NOMINEES LIMITED	1,477,184	0.65
8	MRS NATALIE PENN	1,200,344	0.53
9	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <BKCUST A/C>	1,000,000	0.44
10	RUBI HOLDINGS PTY LTD <JOHN RUBINO S/F A/C>	1,000,000	0.44
11	MISCHKE INVESTMENTS PTY LTD <MISCHKE SUPER FUND A/C>	958,816	0.42
12	MISCHKE INVESTMENTS PTY LTD <DELAFOSSE FAMILY A/C>	957,850	0.42
13	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	770,603	0.34
14	CVC LIMITED	765,957	0.34
15	SONHILL INVESTMENTS PTY LTD <PETERSON SUPER FUND A/C>	723,310	0.32
16	D & M TULLOCH PTY LTD <D & M TULLOCH S/F A/C>	600,000	0.26
17	PHILANTHROPIC INVESTORS CLUB PTY LTD <PHILANTHROPIC INVST FND A/C>	600,000	0.26
18	WILBOW GROUP PTY LTD <WILBOW GROUP A/C>	567,375	0.25
19	MR CRAIG STEWART FOX & MRS TONI ROSEMARY FOX <FOX FAMILY SUPER FUND>	559,780	0.25
20	MR GREGORY RIDDER & MRS LEE RIDDER <RIDDER SUPER FUND A/C>	531,724	0.23
	TOP 20	175,609,104	77.47
	TOTAL	**226,693,758**	**100.00**

(c) Substantial shareholders

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

Bennamon Pty Limited	110,304,272 ordinary shares
Mr Brandon Penn	24,958,817 ordinary shares
Trustees Australia Limited for Lanyon Australian Value Fund	15,134,214 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 2,680,000.

ESPP Shares under escrow until 4 April 2015	200,000 ESPP shares
ESPP Shares under escrow until 16 October 2015	330,000 ESPP shares
ESPP Shares under escrow until 21 July 2016	1,100,000 ESPP shares
ESPP Shares under escrow until 24 March 2017	1,050,000 ESPP 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.

PRO-PAC
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