Pro-Pac
Packaging Limited

Annual Report | 2008

ACN 112 971 874

Leader in the manufacture of biodegradable voidfill packaging

General Information

Directors
John Read (Chairman)
Elliott Kaplan
Hadrian Morrall
Brandon Penn

Company Secretary
Mark Saus

Registered Office
9 Widemere Road
Wetherill Park NSW 2164

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

Solicitors
Thomson Playford
Australia Square Tower
Sydney NSW 2000

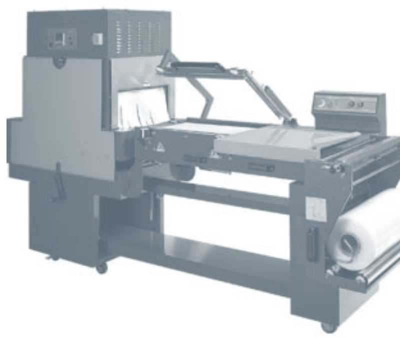
Bankers
Commonwealth Bank of Australia
52 Martin Place
Sydney NSW 2000

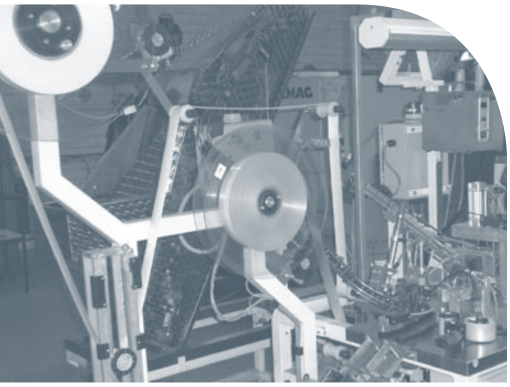
Auditors
UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000

PB Packaging
Containers and Closures for All Industries

One-stop industrial packaging company

Contents





Chairman's Report

On behalf of the Board of Directors of Pro-Pac Packaging Limited (ASX:PPG), I am pleased to provide this report on the performance of your company and its controlled entities for the financial year ended 30 June 2008.

The Group's financial performance was dominated by two opposing themes.

On a positive note, the acquisition of Plastic Bottles Pty Limited, effective 1 July 2007, and the acquisition of Ctech Closures Pty Limited, effective 1 December 2007 contributed to strong group revenue growth and aggregate profit growth. Group revenue grew by 175 % over the previous corresponding period to $71.7 million. Profit before tax (PBT) also grew by 45% to $2.6 million. These positive outcomes were supported by strong operating cash flows of $3.7 million for the period.

In the current reporting period the Group has also begun to realise the synergistic benefits of these acquisitions through cross selling and improved operational efficiencies and reduced managerial overheads.

Opposing these positive developments, the Group's performance was adversely impacted by a material decline in the trading performance of the industrial packaging division and in particular its NSW operations. This adversely impacted profitability for the second six months ended 30 June 2008.

To improve the performance of its industrial packaging division, and in particular, the NSW operations, the Board resolved to replace CEO, Mr. Trevor Morrow, with Ms Wendy Penn, who was appointed interim CEO on 1 April 2008. A number of other senior management changes were made and a decision was taken to close the Marrickville general packaging distribution centre and merge the NSW general packaging distribution operations with the Group's rigid container distribution centre based in Wetherill Park. Costs incurred as part of this rationalisation and relocation program included the writing off of certain Marrickville based fixed, trading and leasehold assets, redundancies and relocation costs. These costs adversely impacted 2007/08 profit by approximately $647,000. These personnel and operational changes have already resulted in improved servicing and trading performance. It is expected that the NSW rationalisation program will generate enhanced service capability, significant savings and improved bottom line performance going forward.

On behalf of my fellow Directors, I would like to thank the Group's management team and staff and in particular our interim CEO, Ms Wendy Penn, our CFO, Mr. Mark Saus, and our National Operations Manager, Ms Debra Eyles, for their dedicated and professional approach in implementing the NSW integration and rationalisation program.

On 28 August 2008, PPG declared a fully franked final dividend of 1 cent per share. Total fully franked dividends for the 2008 financial year were 2 cents per share following an interim dividend of 1 cent per share paid by the Company on 11 April 2008.

PPG continues to aggressively pursue opportunities for organic and acquisitive growth. The Company continues to expand by integrating new products, new customers and new geographic locations. Having successfully completed 3 acquisitions in the 2007/08 financial year, PPG continues to actively evaluate new acquisition opportunities.

Notwithstanding declining economic confidence amongst Australian consumers, the Group has at this juncture retained its cautiously optimistic outlook for the 2008/09 fiscal year.

John D Read
Chairman

26 September 2008

Directors' Report

The Directors present the Financial Report of Pro-Pac Packaging Limited ("the Company") and the Consolidated Entity ("PPG") being the company and its controlled entities, for the year ended 30 June 2008, together with the Auditors' report thereon.

Directors

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

John Read

B.Sc. (Hons) (Cant.), MBA (AGSM), FAICD
(Chairman and Non-Executive Director – appointed 23 August 2005)

Mr Read is a Fellow of the Australian Institute of Company Directors. He is a former director of CSIRO and the Australian Institute for Commercialisation Limited. During the past five years, Mr Read has held and continues to hold the following directorships of ASX listed companies; Chairman of The Environmental Group Limited (ASX Code: EGL), Chairman of Patrys Limited (ASX Code: PAB) and non-executive director of CVC Limited (ASX Code: CVC). Mr Read is also a director of CVC Private Equity Limited and CVC Sustainable Investments Limited.

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

Elliott Kaplan

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

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

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

Hadrian Morrall

(Executive Director – appointed 16 August 2007)

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

Brandon Penn

B.Com
(Non-Executive Director – appointed 16 August 2007)

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

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

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

Mr Penn is a member of the Audit Committee and the Remuneration Committee.

Trevor Morrow

BBS (Hons), MBS (Hons)
(Managing Director – appointed 10 July 2006, resigned on 31 May 2008)

Company Secretary

Mark Saus

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

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

Directors' Report

Interests in the Shares of the Company

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

	Ordinary Shares	Interest in Ordinary Shares through Directorships of Corporate Shareholders	Executive Long Term Incentive Plan Shares (Escrowed)
John Read	324,790	36,062,868	-
Elliott Kaplan	1,405,727	7,418,043	-
Hadrian Morrall	12,049,046	-	-
Brandon Penn	18,117,304	-	-

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
John Read	6	6	3	2	1	1
Elliot Kaplan	6	6	3	3	1	1
Hadrian Morrall	6	6				
Trevor Morrow	5	5				
Brandon Penn	6	6	2	2	1	1

Principal Activities

Pro-Pac Packaging Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity during the year were the manufacture and distribution of biodegradable flowable void fill packaging, the distribution of general industrial packaging products and the manufacture and distribution of injection moulded and blow moulded containers and closures.

Overview of the Company's Business

The Pro-Pac business was established in 1987 and has grown to become a leading Australian manufacturer of environmentally friendly protective packaging products and a leading distributor of general industrial packaging products. Following the acquisition of Plastic Bottles Pty Ltd effective 1 July 2007, the Company's business has been expanded to include the manufacture and distribution of injection moulded and blow moulded containers and closures.

Pro-Pac maintains a national presence, supplying the packaging and safety needs of both national and multi-national customers.

The Group proposes to continue to seek, acquire and integrate synergistic industrial, protective and rigid packaging businesses and to continue with the developments and introduction of new packaging products.

Review of Operations

The Directors of Pro-Pac Packaging Limited (ASX:PPG) are pleased to provide this commentary on the performance of the company and its controlled entities ("the Group") for the financial year ended 30 June 2008.

Directors' Report

Results for the Year Ended 30 June 2008

Group revenue grew by 175% over the previous corresponding period to $71.7 million. Profit before tax also grew by 45% to $2.6 million. Operating cash flow for the period was $3.7 million. Profit was adversely impacted by relocation and rationalisation costs of approximately $647,000.

Dividends

On 28 August 2008, the Company declared a fully franked final dividend of 1 cent per share. The Record Date for determining entitlements to the dividend is 26 September 2008. The dividend will be paid on 16 October 2008. The Company's Dividend Reinvestment Plan will apply to this final dividend at a discount of 2%. Total fully franked dividends for the 2008 financial year are 2 cents per share following an interim dividend of 1 cent per share paid by PPG on 11 April 2008.

Capital Structure

At 1 July 2007, the Company had 43,255,437 ordinary shares on issue. In August 2007 the Company issued 29,738,000 shares to the vendors of the Plastic Bottles Group and issued 46,486,486 shares under a share purchase plan and a share placement. An additional 625,000 shares were issued to employees and 2,044,311 shares were cancelled under the Company's Executive Long Term Incentive Plan (ESPP). During the year 1,967,377 shares were issued under the Dividend Reinvestment Plan. At 30 June 2008 there were 120,027,989 shares in issue.

Significant Changes in the State of Affairs

With effect from 1 July 2007, the Group acquired the rigid plastics manufacturer and distributor, Plastic Bottles Pty Limited, in accordance with a resolution passed by shareholders on 14 August 2007.

Significant Events Subsequent to Balance Date

There were no significant events subsequent to balance date.

Likely Developments

The Group proposes to continue to seek, acquire and integrate synergistic industrial, protective and rigid packaging businesses and to continue with the developments and introduction of new packaging products.

Environmental Regulation and Performance

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

Indemnification and Insurance of Directors and Officers

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

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

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

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

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

Remuneration Report

Remuneration policy

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

The Remuneration Committee comprises John Read (Chairman), Elliott Kaplan and Brandon Penn, each of whom is a Non-Executive Director.

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

Directors' Report

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 2008 is detailed in Table 1 of this Remuneration Report.

Executive Director and Senior Management remuneration

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

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

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

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

The remuneration of the Chief Executive Officer and senior management for the year ending 30 June 2008 is set out in Table 1 of this report.

Employment contracts

CEO and Divisional Managing Director

The Company has entered into an executive service agreement with Ms Wendy Penn in relation to her role as interim Chief Executive Officer. The engagement is by mutual consent on a month by month basis.

The Company has entered into an executive service agreement with Mr Hadrian Morrall in relation to his role as Managing Director of the rigid plastics division. The agreement expires on 16 August 2011. In his executive service agreement, Mr Morrall agrees that all intellectual property rights created, developed or acquired by him in the course of his employment, belong to the Company.

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

The Company may terminate this 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. This agreement provides that for a period of twenty four months after termination of his employment contract (less any served notice period) Mr Morrall will not compete with Pro-Pac in Australia.

Senior Management

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

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

Executive Long Term Incentive Plan (ESPP)

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

Directors' Report

in section 9 of the Corporations Act. There are currently 805,000 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 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 2008

John Read	–	Chairman (non-executive)
Elliot Kaplan	–	Director (non-executive)
Hadrian Morrall	–	Director (executive)
Brandon Penn	–	Director (non-executive)
Wendy Penn	–	Interim CEO (appointed 1 April 2008)
Mark Saus	–	Chief Financial Officer
Trevor Morrow	–	Group CEO and Managing Director (Resigned 31 May 2007)

Directors' Report

Remuneration of Key Management Personnel

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

Table 1

		Short-term benefits		Post employment benefits	Other long term benefits	Share based payment	Total	
		Cash, salary and commissions	Cash profit share and non-cash benefit	Super-annuation	Other	Equity and options		Performance based
		$	$	$	$	$	$	
John Read	2008	50,833	-	4,575	-	-	55,408	-
	2007	50,000	-	4,500	-	-	54,500	-
Trevor Morrow	2008	276,710	-	14,260	-	-	290,970	-
	2007	234,065	-	19,935	-	9,420	263,420	-
Elliott Kaplan	2008	36,667	-	-	-	-	36,667	-
	2007	36,000	-	-	-	-	36,000	-
Hadrian Morrall	2008	195,014	-	19,346	-	-	214,360	-
	2007	-	-	-	-	-	-	-
Brandon Penn	2008	32,166	-	-	-	-	32,166	-
	2007		-	-	-	-	-	-
Wendy Penn	2008	90,000	-	-	-	-	90,000	-
	2007	-	-	-	-	-	-	-
Mark Saus	2008	154,061	-	13,866	-	2,160	170,087	-
	2007	152,181	-	11,819	-	942	164,942	-
Total	**2008**	**835,451**	**-**	**52,047**	**-**	**2,160**	**889,658**	**-**
Remuneration	**2007**	**472,246**	**-**	**36,254**	**-**	**10,362**	**518,862**	**-**

Directors' Report

Options issued as part of remuneration for the year ended 30 June 2008

No options were granted as remuneration during the year ended 30 June 2008.

Shares and Loans issued under the ESPP during the year ended 30 June 2008

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

2008	ESPP Shares (number)	ESPP Shares $	ESPP Loans Outstanding $	ESPP Issue Price $	ESPP Expiry Date
Mark Saus	100,000	36,500	36,500	0.365	18 January 2010
	100,000	50,000	50,000	0.50	27 November 2010
Total	**200,000**	**86,500**	**86,500**		

Option Holdings of Key Management Personnel

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

Loans to Key Management Personnel

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

Other Transactions with Key Management Personnel

During the year the Company paid $749,488 (inc. GST) to entities associated with directors Hadrian Morrall and Brandon Penn for property rental and outgoings, based on normal commercial terms and conditions.

During the year the Company paid $165,000 (inc. GST) to CVC Limited of which John Read is a director, for consulting and acquisition services based on normal commercial terms and conditions.

During the year the Company paid $82,500 (inc. GST) to CVC Private Equity Limited of which John Read and Elliott Kaplan are directors, for consulting and facilitation services based on normal commercial terms and conditions.

During the year the Company paid $88,000 (inc. GST) to entities associated with director Brandon Penn for consulting and facilitation services in respect of an acquisition of a subsidiary company, based on normal commercial terms and conditions.

Share Options

As at the date of this report (and at the balance date) there were no 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.

Directors' Report

Auditors' Independence Declaration and Non-Audit Services

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

The Auditors' independence declaration for the year end 30 June 2008 has been received and can be found on page 11 of the Directors' report.

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

Dated this 26th day of September 2008.

John Read
Chairman

Elliott Kaplan
Director

Directors' Report

Auditors' Independence Declaration

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

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2008 there have been:

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

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

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 26 September 2008.

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.

On 31 March 2003, the ASX Corporate Governance Council released its principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). The ASX Listing Rules require Pro-Pac to disclose in its annual report whether its corporate governance practices follow the 10 ASX Principles on an "if not, why not" basis.

The Company's Corporate Governance Statement is structured with reference to the Australian Securities Exchange ("ASX") Corporate Governance Council's (the "Council") "Principles of Good Corporate Governance and Best Practice 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 – Encourage enhanced performance
- Principle 9 – Remunerate fairly and responsibly
- Principle 10 – Recognise the legitimate interests of stakeholders

A copy of the Ten Essential Corporate Governance Principles and the Best Practice 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.pro-pac.com.au.

ASX Principle 1 - Lay solid foundations for management and oversight

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.pro-pac.com.au).

Corporate Governance Statement

ASX Principle 2 - Structure the Board to add value

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 exercise of their unfettered and independent judgement.

In the context of Director Independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

In accordance with the Council's definition of independence above, and the materiality thresholds set, the following Directors are not considered to be independent:

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

The Company does not satisfy Corporate Governance Council Recommendation 2.1 as it does not have a majority of independent directors.

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.

Corporate Governance Statement

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
John Read	37 months
Elliott Kaplan	44 months
Hadrian Morrall	13 months
Brandon Penn	13 months

The Board believes that a Board of four Directors operates effectively, generally allows the Board to collectively exercise its authority without the need for many sub-committees and is appropriate for the size of the Company. Further, the Board has considered the competencies and experience of each of the Directors and believes that it is not in the interests of shareholders to seek to replace any of the current Board members. For these reasons, the Company did not adopt the following best practice recommendations throughout the financial year ended 30 June 2008:

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

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

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; and
- 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. A copy of the Code of Conduct is posted on the Pro-Pac website.

Securities Trading Policy

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

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

ASX Principle 4 - Safeguard integrity in financial reporting

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.

The management of Pro-Pac reports monthly to the Board on its financial performance and other key business-related matters. Consistent with *ASX Principle 4*, each half-year the Chief Executive Officer and Chief Financial Officer provide written assurance to the Board as to the veracity of the financial conditions and operational results of the Pro-Pac group and that they are in accordance with relevant accounting standards.

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 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

Corporate Governance Statement

proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

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

The Committee comprises Mr Kaplan, Mr Read and Mr Penn. 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 4.3 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 satisfy the former requirement.

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

ASX Principle 5 - Make timely and balanced disclosure

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

Pro-Pac has adopted a number of different practices designed to promote effective communication with shareholders as recommended by *ASX Principle 6*. 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 and half year reports are distributed to all shareholders (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.

ASX Principle 7 - Recognise and manage risk

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 the requirements of *ASX Principle 7*.

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.

ASX Principle 8 - Encourage enhanced performance

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.

Corporate Governance Statement

The Company did not perform a performance evaluation of the Board and its members during the year ended 30 June 2008.

ASX Principle 9 - Remunerate fairly and responsibly

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

The Board has in place a Remuneration Committee to assist the Board in relation to human resources issues affecting the Pro-Pac Group. The structure of this Committee and its responsibilities reflect the requirements of *ASX Principle 9*. The Committee comprises Mr Read, Mr Kaplan and Mr Penn. In addition to the members, the Chief Executive is invited to the meetings at the discretion of the Committee.

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

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

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

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

Compensation arrangements are determined subject to the Company's constitution and prior shareholder approvals.

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

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

ASX Principle 10 - Recognise the legitimate interests of stakeholders

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.

Income Statements

For the year to 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Revenue					
Sale of goods		71,722,898	26,073,845	-	-
Interest income		163,898	126,198	39,050	58,786
Dividend income		-	-	1,598,788	950,000
Other income		-	86,449	-	-
Total Revenue		71,886,736	26,286,492	1,637,838	1,008,786
Expenses					
Amortisation of prepaid royalty	16	293,160	272,736	-	-
Depreciation expense		1,642,430	327,168	-	-
Distribution		1,638,957	482,285	-	-
Employee benefits expense		12,789,308	4,411,685	124,242	131,821
Finance costs	4(a)	679,242	213,277	-	-
Occupancy costs		2,411,724	761,065	-	-
Other expenses from ordinary activities		6,826,663	1,344,959	212,092	64,605
Raw materials and consumables used		42,379,230	16,699,184	-	-
Rationalisation and relocation expenses	4(b)	647,053	-	-	-
Total Expenses		69,307,767	24,512,359	336,334	196,426
Profit before income tax		2,578,969	1,774,133	1,301,504	812,360
Income tax expense	5	(771,218)	(548,399)	91,098	41,292
Profit after tax		1,807,751	1,225,734	1,392,602	853,652
Profit for the year attributable to members of parent entity		1,807,751	1,225,734	1,392,602	853,652
Earnings per share (cents per share)					
- Basic earnings per year	6	1.69	3.14	-	-
- Diluted earnings per year	6	1.69	3.14	-	-

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

Balance Sheets

As at 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Assets					
Current assets					
Cash and cash equivalents	8	2,562,730	1,677,490	671	-
Trade and other receivables	10	11,537,797	4,302,104	1,093	1,093
Inventories	11	6,181,090	1,964,557	-	-
Prepayments	16	707,851	381,563	5,206	5,206
Total current assets		20,989,468	8,325,714	6,970	6,299
Non-current assets					
Investments in controlled entities at cost		-	-	37,977,940	16,753,784
Property, plant and equipment	12	9,003,040	1,813,360	-	-
Intangible assets	13	36,784,888	14,369,928	-	-
Deferred tax assets	15	600,133	358,845	72,993	139,194
Prepayments	16	1,992,786	2,315,921	4,223	12,674
Loans to group companies	14	-	-	9,987,576	2,226,104
Total non-current assets		48,380,847	18,858,054	48,042,732	19,131,756
TOTAL ASSETS		69,370,315	27,183,768	48,049,702	19,138,055
Liabilities					
Current liabilities					
Trade and other payables	18	9,811,012	3,620,635	-	10,000
Interest bearing borrowings	19	1,364,628	289,017	-	-
Provisions	20	1,194,918	364,592	81,443	-
Current tax liabilities		260,705	90,788	260,705	90,788
Total current liabilities		12,631,263	4,365,032	342,148	100,788
Non-current liabilities					
Provisions	20	310,496	64,804	-	-
Interest bearing borrowings	19	7,372,174	2,790,933	-	-
Total non-current liabilities		7,682,670	2,855,737	-	-
TOTAL LIABILITIES		20,313,933	7,220,769	342,148	100,788
NET ASSETS		49,056,382	19,962,999	47,707,554	19,037,267
EQUITY					
Issued Capital	21	47,605,676	18,729,203	47,605,676	18,729,203
Reserves		8,884	11,300	-	-
Retained earnings		1,441,822	1,222,496	101,878	308,064
TOTAL EQUITY		49,056,382	19,962,999	47,707,554	19,037,267

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

Cash Flow Statements

For the year to 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Cash flows from operating activities					
Receipts from customers		71,925,474	25,394,352	-	-
Payments to suppliers and employees		(67,101,477)	(23,213,912)	(256,443)	(196,426)
Interest received		170,545	126,198	39,050	58,786
Interest paid		(775,254)	(213,277)	-	-
Income tax paid		(547,586)	(6,409)	-	-
Net cash flows provided by/(used in) operating activities	9	3,671,702	2,086,952	(217,393)	(137,640)
Cash flows from investing activities					
Payments for property, plant and equipment		(1,091,716)	(628,707)	-	-
Proceeds from sale of property, plant and equipment		222,672	83,764	-	-
Payments for controlled entities net of cash		(12,984,737)	-	(9,906,624)	-
Payments for unincorporated business net of cash acquired		(193,508)	(1,691,266)	-	-
Net cash flows used in investing activities		(14,047,289)	(2,236,209)	(9,906,624)	-
Cash flows from financing activities					
Payment of finance lease liabilities		(1,328,518)	(132,833)	-	-
Proceeds from borrowing		2,955,851	234,605	-	610,758
Loans to subsidiaries		-	-	(6,138,806)	-
Proceeds from issue of shares		17,200,000	-	17,200,000	-
Bank bills repaid		(6,630,000)	-	-	-
Dividend paid		(899,399)	(473,118)	(899,399)	(473,118)
Costs of issue of shares		(37,107)	-	(37,107)	-
Net cash flows provided/(used in) by financing activities		11,260,827	(371,346)	10,124,688	137,640
Net increase/(decrease) in cash and cash equivalents		885,240	(520,603)	671	-
Cash and cash equivalents at beginning of financial year		1,677,490	2,198,093	-	-
Cash and cash equivalents at end of financial year	8	2,562,730	1,677,490	671	-

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

Statements of Changes in Equity

For the year to 30 June 2008

	Issued Capital $	Retained Earnings $	Option Reserve $	Total Equity $
Consolidated				
Balance as at 1 July 2006	18,366,273	832,810	-	19,199,083
Issue of shares for dividend re-investment plan	362,930	-	-	362,930
Recognition of share based payments	-	-	11,300	11,300
Profit for the year	-	1,225,734	-	1,225,734
Dividend paid	-	(836,048)	-	(836,048)
Balance as at 30 June 2007	18,729,203	1,222,496	11,300	19,962,999
Shares issued to Plastic Bottles Group shareholders	11,003,060	-	-	11,003,060
Shares issued under share placement	17,200,000	-	-	17,200,000
Costs of raising shares	(37,107)	-	-	(37,107)
Future income tax benefit associated with costs of raising shares	11,132	-	-	11,132
Issue of shares for dividend re-investment plan	699,388	-	-	699,388
Dividend paid	-	(1,598,788)	-	(1,598,788)
Recognition of share based payments	-	-	7,947	7,947
Cancellation of cost of ESPP shares	-	10,363	(10,363)	-
Profit for the year	-	1,807,751	-	1,807,751
Balance as at 30 June 2008	47,605,676	1,441,822	8,884	49,056,382
Parent				
Balance as at 1 July 2006	18,366,273	290,460	-	18,656,733
Issue of shares for dividend re-investment plan	362,930	-	-	362,930
Profit for the year	-	853,652	-	853,652
Dividend paid	-	(836,048)	-	(836,048)
Balance as at 30 June 2007	18,729,203	308,064	-	19,037,267
Shares issued to Plastic Bottles Group shareholders	11,003,060	-	-	11,003,060
Shares issued under share placement	17,200,000	-	-	17,200,000
Costs of raising shares	(37,107)	-	-	(37,107)
Future income tax benefit associated with costs of raising shares	11,132	-	-	11,132
Issue of shares for dividend re-investment plan	699,388	-	-	699,388
Profit for the year	-	1,392,602	-	1,392,602
Dividend paid	-	(1,598,788)	-	(1,598,788)
Balance as at 30 June 2008	47,605,676	101,878	-	47,707,554

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

Notes to the Financial Statements

For the year to 30 June 2008

Note 1: Corporate Information

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2008 was approved for issue in accordance with a resolution of the Directors on 26 September 2008.

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

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

Note 2: Summary of Significant Accounting Policies

(a) Basis of preparation

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

The financial report covers the economic entity of Pro-Pac Packaging Limited and controlled entities, and Pro-Pac Packaging Limited as an individual parent entity.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro-Pac Packaging Limited and its subsidiaries as at 30 June 2008.

The financial statements of subsidiaries are prepared for the reporting year ended 30 June 2008 using accounting policies consistent with the parent entity.

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

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

(d) Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

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

(e) Property, plant and equipment

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

The current depreciation rates are over 3 to 15 years.

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

Impairment

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

Notes to the Financial Statements

For the year to 30 June 2008

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

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.

(f) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(g) Goodwill

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

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

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

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

(h) 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.

(i) 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.

(j) Trade and other receivables

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

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

(k) Cash and cash equivalents

Cash and short-term deposits in the balance sheet 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 Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(l) 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.

Notes to the **Financial Statements**

For the year to 30 June 2008

(m) 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.

(n) 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.

(o) Leases

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

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

(p) Revenue

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

Sale of goods

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

Interest

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

Dividends

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

(q) Income tax

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

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

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

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

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

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

Notes to the Financial Statements

For the year to 30 June 2008

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

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.

The income tax calculations are based on the premise that the Group has been consolidated for income tax purposes with effect from 1 July 2005. Each entity in the Group recognizes its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity.

(r) 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 balance sheet. Cash flows are included in the Cash Flow Statement 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.

(s) 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.

(t) Financial instruments

Recognition

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

Loans and receivables

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

Financial liabilities

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

(u) Foreign currency transactions and balances

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

(v) Critical accounting estimates and judgements

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

Key estimates – Impairment

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

Notes to the Financial Statements

For the year to 30 June 2008

Note 3: Segment Information

The Group operates solely as a supplier of packaging products within Australia. As such there is only one business and geographical segment.

Note 4a: Expenses

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Finance costs	679,242	213,277	-	-
Bad and doubtful debt - trade	104,788	1,083	-	-
Rental expense on operating leases:				
- minimum lease payments	2,253,851	576,342	-	-
Write down of inventories to net realisable value	60,878	-	-	-

Note 4b: Significant Expenses

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
The following significant expense items are relevant in explaining the financial performance:				
- restructuring and relocation expenses	647,053	-	-	-

Note 5: Income Tax

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

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Income Statement				
Current income tax				
Current income tax charge/(refund)	752,634	413,248	(155,387)	(148,870)
Adjustments in respect of previous years	(9,132)	15,218	(1,912)	-
Deferred income tax				
Relating to temporary differences	27,716	119,933	66,201	107,578
Income tax expense/(refund) in income statement	771,218	548,399	(91,098)	(41,292)
Statement of changes in equity				
Deferred income tax asset				
Cost of issuing securities	11,132	-	11,132	-
Income tax benefit in equity	11,132	-	11,132	-

Notes to the Financial Statements

For the year to 30 June 2008

Note 5: Income Tax (cont.)

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 2008 is as follows:

	Consolidated 2008 $	Consolidated 2007 $
Accounting profit before tax	2,578,969	1,774,133
At the statutory income tax rate of 30%	773,691	532,240
Expenditure not allowable for tax purposes	6,659	941
Adjustments in respect of previous years	(9,132)	15,218
At effective income tax rate of 29.9% (2007: 30.9%)	771,218	548,399
Income tax expense reported in income statement	771,218	548,399

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 2008 and 30 June 2007.

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 2008 $	Consolidated 2007 $
Net profit attributable to equity holders ($)	1,807,751	1,225,734
Weighted average number of ordinary shares for basic earnings per share	106,919,186	39,097,706
Basic earnings per share (cents per share)*	1.69	3.14
Diluted earnings per share (cents per share)*	1.69	3.14

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

Notes to the **Financial Statements**

For the year to 30 June 2008

Note 7: Dividends Paid and Proposed

On 28 August 2008, the Company declared a fully franked final dividend of 1 cent per share. The record date for determining entitlements to the dividend is 26 September 2008 and the dividend will be paid on 16 October 2008. The Company's Dividend Reinvestment Plan was applied to the final dividend at a discount of 2%. When combined with PPG's interim dividend of 1 cent, paid on 11 April 2008, this brings total fully franked dividends for the 2007/08 financial year to 2 cents per share.

Franking credit balance

As indicated in note 5, the financial report has been prepared on the basis that the group has adopted the provisions of the tax consolidation regime for the years ending 30 June 2008 and 30 June 2007. As such franking credits arising from the other Group companies totalling $8,390,098 (2007: $3,040,243) will be available to the parent entity.

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Note 8: Cash and Cash Equivalents				
Cash at bank and in hand	**2,562,730**	**1,677,490**	**671**	**-**
Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates				
The fair value of cash and cash equivalents	**2,562,730**	**1,677,490**	**671**	**-**
Reconciliation of cash				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at bank and in hand	**2,562,730**	**1,677,490**	**671**	**-**

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Note 9: Cash Flow Information				
a) Reconciliation from the net profit after tax to the net cash flows from operations				
Net profit after tax	1,807,751	1,225,734	1,392,602	853,652
Add/(Less) non-cash items:				
Depreciation and amortisation of plant and equipment	1,642,430	327,168	-	-
Amortisation of prepaid royalty	293,160	272,736	-	-
(Profit)/Loss on disposal of assets	183,464	(66,781)	-	-
Movement in income tax provision	195,916	422,055	(148,848)	(148,871)
Movement in deferred tax assets and liabilities	27,716	119,933	66,202	107,579
Movement in provision for bad debts	23,584	(5,138)	-	-
Changes in assets and liabilities:				
Receivables	177,177	(696,364)	-	-
Inventories	(906,959)	38,425	-	-
Payables	150,618	636,181	(10,000)	-
Provisions	(68,304)	(118,549)	81,439	-
Prepayments	233,215	(69,995)	-	-
Other Current Assets	(88,066)	1,547	(1,598,788)	(950,000)
Net cash flows from operating activities	3,671,702	2,086,952	(217,393)	(137,640)

b) Non-cash financing and investing activities

1. During the year, the company issued shares to the value of $699,388 (2007: $362,930) in terms of the dividend reinvestment plan.
2. During the year, the consolidated Group acquired plant with an aggregate value of $1,372,500 (2007: $226,280) by means of finance leases. These acquisitions are not reflected in the cash flow statements.

c) Credit standby arrangements with banks

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Credit facility	1,050,000	500,000	-	-
Amount utilised	235,847	-	-	-
Loan facilities	7,000,000	4,500,000	-	-
Amount utilised	5,600,000	2,600,000	-	-

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Note 10: Trade and Other Receivables				
Current:				
Trade receivables	11,300,130	4,322,487	-	-
Provision for impairment of receivables	(101,095)	(48,875)	-	-
Other debtors	338,762	28,492	1,093	1,093
Total current receivables	11,537,797	4,302,104	1,093	1,093

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

Note 11: Inventories

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Raw materials (lower of cost and net realisable value)	483,313	42,609	-	-
Finished goods (lower of cost and net realisable value)	5,791,282	1,954,575	-	-
Provision for obsolescence	(93,505)	(32,627)	-	-
Total inventories at lower of cost and net realisable value	6,181,090	1,964,557	-	-

Note 12: Property, Plant and Equipment

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
At 30 June				
Plant and equipment				
At cost	10,544,159	1,924,383	-	-
Accumulated depreciation	(1,763,895)	(443,306)	-	-
	8,780,264	1,481,077	-	-
Leased plant and equipment				
Capitalised leased plant and equipment	456,792	508,305	-	-
Accumulated depreciation	(234,016)	(176,022)	-	-
	222,776	332,283	-	-
Total property, plant and equipment	9,003,040	1,813,360	-	-

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

	Consolidated 2008 $ Owned	Consolidated 2008 $ Leased	Consolidated 2008 $ Total	Parent 2008 $ Owned	Parent 2008 $ Leased	Parent 2008 $ Total
Balance at the beginning of the year	1,481,078	332,283	1,813,361	-	-	-
Additions arising from acquisitions	6,543,296	-	6,543,296	-	-	-
Additions	2,695,784	29,693	2,725,477	-	-	-
Disposals	(376,769)	(59,857)	(436,626)	-	-	-
Depreciation charge for the year	(1,563,125)	(79,343)	(1,642,468)	-	-	-
Carrying amount at the end of the year	8,780,264	222,776	9,003,040	-	-	-

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $

Note 13: Intangible Assets

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Goodwill				
At 30 June				
Carrying amount at beginning of the year	14,369,928	13,412,687	-	-
Payment for acquisition of unincorporated and incorporated businesses	22,414,960	957,241	-	-
At 30 June, net of accumulated amortisation	36,784,888	14,369,928	-	-
At 30 June				
Gross	36,784,888	14,369,928	-	-
Accumulated impairment losses	-	-	-	-
Net carrying amount	36,784,888	14,369,928	-	-

Impairment Test for Goodwill

The Group is treated as a single cash generating unit as this is the smallest group of identifiable assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of the cash generating unit is determined based on value-in-use calculations. Based on the value-in-use calculations approved by the Board, Goodwill has not been impaired (see note 27).

Note 14: Loans to Group Companies

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Loans to Group Companies	-	-	9,987,576	2,226,104

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $

Note 15: Deferred Tax Assets

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Deferred tax assets				
Deferred tax assets comprise:				
Provisions and other timing differences	527,140	219,651	-	-
Transactions costs on equity issue	72,993	139,194	72,993	139,194
	600,133	358,845	72,993	139,194
Reconciliation of gross movements				
The overall movement in the deferred tax account is as follows:				
Opening balance	358,845	478,778	139,194	246,773
Arising on acquisition of subsidiaries	257,872	-	-	-
Charge to income statement	(27,716)	(119,933)	(77,333)	(107,579)
Charge to equity	11,132	-	11,132	-
Closing balance	600,133	358,845	72,993	139,194
Deferred tax assets				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provisions and other timing differences at 01 July	219,651	232,005	-	-
Arising on acquisition of subsidiaries	257,872	-	-	-
Credit/(charge) to income statement	49,617	(12,354)	-	-
At 30 June	527,140	219,651	-	-
Transaction cost to equity issue at 01 July	139,194	246,773	139,194	246,773
Charge to income statement	(77,333)	(107,579)	(77,333)	(107,579)
Credited directly to equity	11,132	-	11,132	-
At 30 June	72,993	139,194	72,993	139,194

Note 16: Prepayments

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 2008 amounted to $293,160 (2007: $272,736).

Portion included under non-current assets - prepayments	1,988,563
Portion included under currents assets - prepayments	294,260
Total prepayment of royalty (net of amortisation)	2,282,823

Notes to the Financial Statements

For the year to 30 June 2008

Note 17: Employee Benefits

Executive Long Term Incentive Plan

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

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

- No Shares under the ESPP will be allotted unless the requirements of the Corporations Act 2001 and the ASX Listing Rules have been complied with.
- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of the ESPP is 3 years.
- The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares would be surrendered in full settlement of the outstanding loan balance.
- During the year, 625,000 shares were issued to staff and executives under the ESPP, while 2,044,311 shares were cancelled due to termination of service of staff. At the end of the year 805,000 shares were in issue under the ESPP. (In addition, there were 1,350,000 shares pending cancellation that were issued to former employees.)
- No other features of the benefit provided (including vesting conditions) were incorporated into the measurement of fair value.
- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions:

Expected volatility (%)	40
Risk-free interest rate (%)	7.5
Expected life of option (years)	3
Share price ($)	0.5
Dividend yield (%)	5.1
Probability of achievement (%)	30

No other features of the benefit provided (including vesting conditions) were incorporated into the measurement of fair value.

- Under AIFRS, shares issued to executives under the Long Term Executive Incentive Plan are now considered to be options granted. As such, the contributed equity (share capital) as well as the related receivable are not recognised on the balance sheet and do not form part of the asset base in the calculation of the basic net assets and basic net tangible assets per security. Comparative figures for the prior financial year have been adjusted accordingly.

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $

Note 18: Trade and Other Payables

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Unsecured:				
Trade payables	8,156,226	3,233,162	-	10,000
GST payable	324,934	151,153	-	-
Other tax payable	93,226	107,660	-	-
Sundry creditors and accruals	1,236,626	128,660	-	-
	9,811,012	3,620,635	-	10,000

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

Note 19: Interest Bearing Loans and Borrowings

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Current				
Finance lease and hire purchase (see note 26)	1,128,781	195,450	-	-
Bank loan (secured)	235,847	93,567	-	-
	1,364,628	289,017	-	-
Non-current				
Finance lease and hire purchase (see note 26)	1,772,174	190,933	-	-
Bank loan (secured)	5,600,000	2,600,000	-	-
	7,372,174	2,790,933	-	-

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 6 month period ending 30 June and 31 December, the ratio of EBITDA to total debt service will not fall below 2.00:1;
   ii) it will ensure that for each 6 month period ending 30 June and 31 December, the ratio of total senior debt to EBITDA does not exceed 3.00:1; and
   iii) it will ensure that for each 6 month period ending 30 June and 31 December, the ratio of total tangible assets to total senior debt will not fall below 1.45:1.

c) The bank loan facility expires on 31 December 2009.

Notes to the Financial Statements

For the year to 30 June 2008

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $

Note 20: Provisions

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Current				
Employee entitlements				
Opening balance	364,592	359,447	-	-
Arising on acquisition of controlled entities	721,039	-	-	-
Additional provisions	1,008,387	45,839	-	-
Amount used	(899,100)	(40,694)	-	-
Closing balance	1,194,918	364,592	-	-
Non-current				
Employee entitlements				
Opening balance	64,804	59,872	-	-
Arising on acquisition of controlled entities	266,531	-	-	-
Additional provisions	56,789	4,932	-	-
Amount used	(77,628)	-	-	-
Closing balance	310,496	64,804	-	-

Provision for restructuring costs

A provision of $259,930 has been recognised for estimated restructuring costs to recognise the financial effect of implementing the plan, the key features of which include closure and relocation of the industrial packaging distribution facility in Marrickville, NSW.

Note 21: Issued Capital

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Ordinary shares				
Issued and fully paid	47,605,676	18,729,203	47,605,676	18,729,203

Movement in ordinary shares on issue	Number	$	Share Restrictions	Date Released
Balance at 1 July 2006	41,212,300	18,366,273		
Issue of shares for Executive Long Term Incentive Plan	1,200,000	-	escrow	Jan 2010
Cancellation of shares for Executive Long Term Incentive Plan	(260,000)	-		
Issues of shares for dividend re-investment plan	1,103,137	362,930		
Balance at 1 July 2007	43,255,437	18,729,203		
Issue of shares for executive long term incentive plan	625,000	-	escrow	Nov 2010
Cancellation of shares for Executive Long Term Incentive Plan	(2,044,311)	-		
Cost of issuing securities	-	(37,107)		
Future income tax benefit associated with cost of issuing securities	-	11,132		
Shares issued to Plastic Bottle Group shareholders	29,738,000	11,003,060		
Shares issued under share placement	46,486,486	17,200,000		
Issue of shares for dividend re-investment plan	1,967,377	699,388		
Balance at 30 June 2008	120,027,989	47,605,676		

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 17).

Notes to the Financial Statements

For the year to 30 June 2008

Note 22: 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 7.2%.

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 2.5% of purchases of materials and capital items. Forward contracts are not used to manage foreign currency risk.

Commodity price risk

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

Credit risk

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

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

Liquidity risk

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

Notes to the Financial Statements

For the year to 30 June 2008

Note 23: Financial Instruments

Fair values

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

Interest rate risk

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

	Floating interest rate 2008 $	Fixed interest rate 2008 $	Non-interest bearing 2008 $	Total carrying amount per the balance sheet 2008 $	Weighted average interest rate 2008 %
Consolidated					
(i) Financial assets					
Cash Assets	2,556,080	-	6,650	2,562,730	7.2
Receivables	-	-	11,537,797	11,537,797	
Total financial assets	2,556,080	-	11,544,447	14,100,527	
(ii) Financial liabilities					
Finance Leases (current)	-	1,128,781	-	1,128,781	9.5
Finance Leases (non-current)	-	1,772,174	-	1,772,174	9.5
Bank loans (current)	235,847	-	-	235,847	8.5
Bank loans (non-current)	5,600,000	-	-	5,600,000	8.5
Payables (current)	-	-	9,811,012	9,811,012	
Total financial liabilities	5,835,847	2,900,955	9,811,012	18,547,814	
Net financial assets/(liabilities)	(3,279,767)	(2,900,955)	1,733,435	(4,447,287)	
Parent					
(i) Financial assets					
Cash Assets	-	-	-	-	
Intercompany receivables	-	-	9,987,576	9,987,576	
Total financial assets	-	-	9,987,576	9,987,576	
(ii) Financial liabilities					
Finance Leases (current)	-	-	-	-	
Finance Leases (non-current)	-	-	-	-	
Payables (current)	-	-	-	-	
Total financial liabilities	-	-	-	-	
Net financial assets (liabilities)	-	-	9,987,576	9,987,576	

There is no interest rate applicable on receivables or payables.

Notes to the Financial Statements

For the year to 30 June 2008

	Floating interest rate 2007 $	Fixed interest rate 2007 $	Non-interest bearing 2007 $	Total carrying amount per the balance sheet 2007 $	Weighted average interest rate 2007 %
Consolidated					
(i) Financial assets					
Cash Assets	1,675,504	-	1,986	1,677,490	5.50
Receivables	-	-	4,299,503	4,299,503	
Total financial assets	1,675,504	-	4,301,489	5,976,993	
(ii) Financial liabilities					
Finance Leases (current)	-	195,450	-	195,450	8.20
Finance Leases (non-current)	-	190,933	-	190,933	8.20
Bank loans (current)	93,567	-	-	93,567	7.46
Bank loans (non-current)	2,600,000	-	-	2,600,000	7.46
Payables (current)	-	-	3,620,635	3,620,635	
Total financial liabilities	2,693,567	386,383	3,620,635	6,700,585	
Net financial assets/(liabilities)	(1,018,063)	(386,383)	680,854	(723,592)	
Parent					
(i) Financial assets					
Intercompany receivables	-	-	2,226,104	2,226,104	
Total financial assets	-	-	2,226,104	2,226,104	
(ii) Financial liabilities					
Payables (current)	-	-	10,000	10,000	
Total financial liabilities	-	-	10,000	10,000	
Net financial assets (liabilities)	-	-	2,236,104	2,236,104	

Notes to the **Financial Statements**

For the year to 30 June 2008

Note 23: 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 2008	< 1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	> 5 years	Total
Consolidated							
Cash assets	2,556,080	-	-	-	-	-	2,556,080
Finance leases	1,128,781	819,835	487,598	295,759	168,982	-	2,900,955
Bank loans	235,847	5,600,000	-	-	-	-	5,835,847
Parent							
Cash assets	-	-	-	-	-	-	-

Year ended 30 June 2007	< 1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	> 5 years	Total
Consolidated							
Cash assets	1,675,504	-	-	-	-	-	1,675,504
Finance leases	195,450	40,988	60,660	66,841	22,444	-	386,383
Bank loans	93,567	1,935,000	335,000	330,000	-	-	2,693,567
Parent							
Cash assets	-	-	-	-	-	-	-

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.

Notes to the Financial Statements

For the year to 30 June 2008

Note 24: Controlled Entities

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

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

Note 25: Significant Events during the Period

25.1. Rationalisation and relocation costs

As announced to shareholders on 22 May 2008, the Company implemented a plan to integrate the Marrickville based NSW industrial packaging distribution centre with the rigid container distribution centre based in Wetherill Park. The move to Wetherill Park occurred on 29 June 2008 and one off rationalisation and relocation costs, including writing off certain of the Marrickville based fixed assets and leasehold improvements amounted to $647,053.

25.2. Acquisition of businesses

With effect from 1 July 2007 and as approved by Pro-Pac Packaging shareholders on 14 August 2007, the Group acquired Plastic Bottles Pty Limited for approximately $21.2 million, to be satisfied by way of $10,197,000 in cash and the issue of 29,738,000 new fully paid PPG shares to the vendors at an issued price of $0.37. A further possible amount of up to $2 million may be paid in cash, if certain earnings targets are met.

Immediately thereafter, the Company issued 29,738,000 shares to the vendors of the Plastic Bottles Group. The Company also raised an additional $17,200,000 through the issue of 46,486,486 shares under a share purchase plan and a share placement approved by the Shareholders.

Notes to the Financial Statements

For the year to 30 June 2008

Note 25: Significant Events during the Period (cont.)

Effective 1 October 2007, Pro-Pac Packaging (Aust) Pty Ltd, a wholly owned subsidiary, acquired the business and assets of the complimentary Melbourne based niche general packaging distributor, Tape and Industrial Packaging Supplier Pty Ltd.

Effective 1 December 2007, Plastic Bottles Pty Ltd, a wholly owned subsidiary, acquired the shares of Ctech Closures Pty Ltd.

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

NET ASSETS ACQUIRED	$
Assets	
Current Assets	
Cash and cash equivalents	751,645
Trade and other receivables	7,598,116
Inventories	3,276,948
Tax receivables	10,094
Other assets	439,964
Total Current Assets	**12,076,767**
Non-Current Assets	
Property, plant and equipment	6,820,436
Intangible assets	4,621,608
Deferred tax assets	257,871
Total Non-Current Assets	**11,699,915**
Total Assets	**23,776,682**
Liabilities	
Current liabilities	
Trade and other payables	6,760,293
Interest bearing borrowings	1,564,971
Total Current Liabilities	**8,325,264**
Non-current liabilities	
Interest bearing borrowings	7,822,600
Other liabilities	489,219
Total Non-Current Liabilities	**8,311,819**
Total Liabilities	**16,637,083**
Net Assets	**7,139,599**
Consideration paid	
Cash	13,929,891
Shares	11,003,060
Total	**24,932,951**
Goodwill	**17,793,352**

Notes to the **Financial Statements**

For the year to 30 June 2008

Note 26: 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 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Within one year	**1,911,529**	**347,017**	-	-
After one year but not more than five years	**1,828,633**	**229,325**	-	-
More than five years	-	-	-	-
	3,740,162	**576,342**	-	-

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:

	2008 Minimum payments $	2008 Present value of payments $	2007 Minimum payments $	2007 Present value of payments $
Within one year	**1,329,102**	**1,128,781**	**216,187**	**195,450**
After one year but not more than five years	**2,000,207**	**1,772,174**	**215,173**	**190,933**
Total minimum lease payments	**3,329,309**	**2,900,955**	**431,360**	**386,383**
Less amounts representing future finance charges	**(428,354)**	-	**(44,977)**	-
Present value of minimum lease payments	**2,900,955**	**2,900,955**	**386,383**	**386,383**

	2008 $	2007 $
Representing lease liabilities		
Current	**1,128,781**	**195,450**
Non-current	**1,772,174**	**190,933**
	2,900,955	**386,383**

The weighted average interest rate implicit in the leases is 9.5%.

Notes to the Financial Statements

For the year to 30 June 2008

Note 26: Commitments and Contingencies (cont.)

Contingent Liability

A contingent liability of $500,000 arose from the acquisition of a subsidiary and the potential payment of an earn out amount based on the achievement of profit targets within 12 months of this acquisition.

Capital Expenditure Commitments

As at balance sheet date the Company had no commitments for future capital expenditure.

Note 27: Impairment Testing of Indefinite Lived Goodwill

Carrying amount of goodwill

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Carrying amount of goodwill	**36,784,888**	**14,369,928**	-	-

The Group and all of its subsidiaries are treated as a single cash generating unit as this is the smallest group of identifiable assets that generates 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-unit for impairment testing.

The recoverable amount of the cash generating unit has been determined based on a value-in-use calculation.

Key assumptions used in value in use calculation for 30 June 2008

Cash flow projections are based on financial budgets approved by senior management covering a 12 month period, extrapolated over 20 years. The period of 20 years has been chosen based on the historical performance of the company since its commencement in 1987. Assumptions used in the Group's budgets reflect the Group's past experience and the future expectations regarding sales growth, gross margins and increases in overhead.

The discount rate applied to cash flow projections is 15.15% and cash flows beyond the 12 month period are extrapolated using a zero growth rate for the sake of conservatism. This is despite expectations that the Group will continue to expand its business. On this basis there has been no impairment of Goodwill during the year.

Note 28: 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 24.

Notes to the Financial Statements

For the year to 30 June 2008

Transactions with Directors

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

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
John Read				
• Consultation and acquisition services fees paid to CVC Limited (inc GST)	**165,000**	-	**165,000**	-
• Consultation and facilitation services fees paid to CVC Private Equity Pty Limited (inc GST)	**82,500**	-	-	-
Elliott Kaplan				
• Consultation and facilitation services fees paid to CVC Private Equity Pty Limited (inc GST) (as shown above)	**82,500**	-	-	-
Hadrian Morrall				
• Remuneration paid	**214,360**	-	-	-
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney and Brisbane properties (inc GST)	**749,448**	-	-	-
Brandon Penn				
• Consultation and facilitation services fees paid to the Penn Family Trust (inc GST)	**88,000**	-	-	-
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney and Brisbane properties (inc GST) (as shown above)	**749,448**	-	-	-

Total payments to related parties during the year ended 30 June 2008 was $1,299,308.

Note 29: Events after the Balance Sheet Date

A resolution is to be put to shareholders proposing an extension of the earn out period applicable to the potential $2 million earn out payment under the original PB Group Purchase and Sale agreement. Should this resolution be approved by shareholders, a contingent liability of up to $2 million will arise.

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Note 30: Auditors' Remuneration				
Amounts received or due and receivable by UHY Haines Norton for:				
- audit or review of the financial report	**100,500**	**41,200**	-	-
- due diligence relating to acquisitions	**31,000**	-	-	-

Note 31: Accounting Standards Issued or Amended

A number of accounting standards have either been issued or amended since year end but are not effective for the financial year ended 30 June 2008. The Group does not believe these have any material impact on the 2008 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 43, are in accordance with the *Corporations Act 2001* and:

a. comply with Accounting Standards and Corporations Regulations 2001;

b. give a true and fair view of the financial position at 30 June 2008 and of the performance for the year ended on that date of the company and consolidated group; and

(2) the Chief Executive 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;

c. the financial statements and notes for the financial year give a true and fair view; and

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

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

On behalf of the Board this 26th day of September 2008.

John Read
Chairman

Elliott Kaplan
Director

Independent **Audit 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) and Pro-Pac Packaging Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flows statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 5 to 9 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standards AASB 124.

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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' 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 followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit 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 company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) the remuneration disclosures that are contained in pages 5 to 9 of the directors' report comply with Accounting Standard AASB 124.

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 26 September 2008.

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 18 September 2008.

(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	46	6,743	0.006
1,001-5,000	149	512,784	0.427
5,001-10,000	128	1,062,311	0.885
10,001-100,000	404	13,009,019	10.838
100,001 and over	52	105,437,130	87.844
Totals	**779**	**120,027,987**	**100.00**

There are forty holders of unmarketable parcels totalling 1,756 shares representing 0.001% of the Company's issued capital.

(b) Twenty largest holders

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

Rank	Holder	No. Ordinary Shares	%
1	CVC Limited	26,754,113	22.3
2	Bennamon Pty Ltd	22,400,000	18.7
3	Mr Brandon Penn	18,117,304	15.1
4	Mr Hadrian Morrall	12,482,927	10.4
5	CVC Private Equity Limited	7,418,043	6.2
6	Nightingale Partners Pty Ltd	3,369,453	2.8
7	CVC Sustainable Investments Limited	1,890,712	1.6
8	Derrin Brothers Properties Ltd	1,230,110	1.0
9	Mrs Natalie Penn	1,113,774	0.9
10	L J K Nominees Pty Ltd (Pension Fund A/C)	1,000,000	0.8
11	Posere Pty Ltd	893,972	0.7
12	Fortris Clearing Nominees	867,329	0.7
13	Mr Elliott Kaplan & Mrs Brenda Kaplan (Kaplan Family S/F A/C)	511,755	0.4
14	M J H Nightingale & Co Pty Ltd	373,356	0.3
15	Cannington Corporation Pty Limited (Cannington S/F J Read A/C)	324,790	0.3
16	Keiser Shipping & Transport Pty Ltd	313,500	0.3
17	Rogand Pty Ltd (Rogand Unit A/C)	313,500	0.3
18	Syvest Pty Ltd	309,218	0.3
19	Mr Noel Robert Ingram & Mrs Jennifer Mary Ingram (NR & JM Ingram Super A/C)	300,000	0.2
20	Mr Robert Lindsay Shirley & Mrs Gina Michelle Shirley (R L Shirley Super Fund A/C)	300,000	0.2
	Top 20	100,283,856	83.6
	Total	**120,027,987**	

(c) Substantial shareholders

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

CVC Limited	26,754,113 ordinary shares
Bennamon Pty Ltd	22,400,000 ordinary shares
Mr Brandon Penn	18,117,304 ordinary shares
Mr Hadrian Morrall	12,482,927 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 30,543,000. Shares are restricted in four categories:

ESPP Shares under escrow until 22 July 2008	130,000 ESPP shares
ESPP Shares under escrow until 18 January 2010	100,000 ESPP shares
ESPP Shares under escrow until 27 November 2010	575,000 ESPP shares
Shares under escrow until 16 August 2008	14,869,000 ordinary shares held by Messrs Penn and Morrall
Shares under escrow until 16 August 2009	14,869,000 ordinary shares held by Messrs Penn and Morrall

(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 Packaging Limited
9 Widemere Road
Wetherill Park NSW 2164

T: (02) 8787 1955
F: (02) 8787 1989
www.pro-pac.com.au

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