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Industrial packaging and machinery // Rigid packaging and specialty closures // Food service packaging and disposables // Industrial safety apparel and equipment // Washroom supplies // Disposable personal protection apparel and equipment

Leading supplier of business consumables tailored to the warehousing, manufacturing, logistics, healthcare, pharmaceuticals, food service and scientific industries. With locations across Australia we are able to offer reliable supply and customised solutions that add measurable value to our customers.

corporate information

- // 01 Directors**
Elliott Kaplan (Chairman)
Brandon Penn
Dr Gary Weiss
- // 02 Company Secretary**
Mark Saus
- // 03 Registered Office**
147 - 151 Newton Road
Wetherill Park NSW 2164
- // 04 Principal Place of Business**
147 - 151 Newton Road
Wetherill Park NSW 2164
- // 05 Share Register**
Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000
- // 06 Solicitors**
Thomsons Lawyers
Level 25, 1 O'Connell Street
Sydney NSW 2000
- // 07 Bankers**
Commonwealth Bank of Australia
Premium Business Services
Level 1, 430 Forest Road
Hurstville NSW 2220
- // 08 Auditors**
UHY Haines Norton
Level 11, 1 York Street
Sydney NSW 2000

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chairman's
report

On behalf of the Board of Directors and the management it is my pleasure to present Pro-Pac's annual report for the year ended 30 June 2012.

The 2012 financial year was an extremely busy and productive year for the Company. Eight synergistic acquisitions were completed and integrated. Two major logistical exercises were successfully undertaken – the industrial division's site rationalisation and consolidation in Qld which was completed in February and NSW which was completed in June. Significant progress was made with our project to bring all of our various business units and acquisitions onto a single IT platform.

The 2012 result was a record for the Company with revenue up 15% to \$133m and profit before tax up 16% at \$8.1m. The result included \$763,000 in expensed one off relocation and rationalisation costs relating predominantly to the manufacturing and distribution site consolidations in both NSW and Qld. These moves, together with the Industrial Division's Victorian site consolidation completed in the previous financial year, now provide our largest division with the infrastructure and capacity to continue to grow without further significant capital expenditure.

In April 2012, the Company raised \$28m in new equity to fund growth, placing the Company in a very strong position to continue to pursue its stated acquisition policy. At balance date, the Company had virtually zero net debt and undrawn bank facilities of approximately \$24m.

Subsequent to the financial year end, the Company completed the acquisition of the business and assets of Start Food-Tech (Australia) Pty Ltd, significantly expanding its distribution business to the food processing industry. A pipeline of further acquisition opportunities continues to be reviewed and there is momentum in organic growth from existing businesses.

A fully franked interim dividend of 1 cent per share was paid in April and the Board has declared a fully franked final dividend of 1 cent per share payable on 25 September 2012 with a record date of 11 September 2012.

Board renewal and strengthening is an important element of a strongly growing company and in this regard, in May 2012 we welcomed the addition of Dr Gary Weiss to the Board as a non-executive director. During the financial year Mr. Hadrian Morrall announced his retirement from the Board. I would like to thank Hadrian for his contribution as a Director over the previous five years and we look forward to his ongoing contribution to the growth of the Company in his continuing role of MD of the group's Rigid Division. Companies and businesses do not prosper and grow without competent and entrepreneurial management and dedicated and enthusiastic staff and in this regard, Pro-Pac is most fortunate. On behalf of the Board I would once again like to thank the rest of our senior management team, CEO Brandon Penn, CFO Mark Saus and Industrial Division MD Wendy Penn for their hard work and leadership and all our managers and staff for their initiatives, dedication and commitment to the ongoing success of Pro-Pac.

Elliott Kaplan
Chairman

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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 2012, together with the Auditors' report thereon.

directors

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

Elliott Kaplan

B.Acc, CA

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

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

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

Brandon Penn

B. Com

(Executive Director – appointed 16 August 2007)

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

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

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

Dr Gary Weiss

LL.B (Hons), LL.M (with dist.), Doctor of Juridical Science (JSD) (Non-Executive Director – appointed 28 May 2012)

Dr Weiss holds the degrees of LL.B (Hons) and LL.M (with dist.) from Victoria University of Wellington, as well as a Doctor of Juridical Science (JSD) from Cornell University, New York. Dr Weiss has extensive international business experience and has been involved in numerous cross-border mergers and acquisitions. Dr Weiss is Chairman of Secure Parking

Pty Ltd, Executive Director of Ariadne Australia Ltd, and a director of Premier Investments Limited, Ridley Corporation Ltd, Mercantile Investment Company Limited, Victor Chang Cardiac Research Institute and The Centre for Independent Studies. He was Chairman of Coats plc from December 2003 until April 2012 and an executive director of Guinness Peat Group plc from November 1990 to April 2011 and has held directorships of numerous companies, including Westfield Group, Tower Australia Ltd, Australian Wealth Management Ltd, Tyndall Australia Ltd (Deputy Chairman), Joe White Matings Ltd (Chairman), CIC Ltd, Whittam Turnbull & Co Ltd and Industrial Equity Ltd.

He has authored numerous articles on a variety of legal and commercial topics.

Hadrian Morrall

(Executive Director – appointed 16 August 2007; resigned 28 May 2012)

Mr Morrall was a director of the Board until his resignation on 28 May 2012. Mr Morrall remains the Managing Director of the Rigid division.

company secretary

Mark Saus

B. Com, B. Compt (Hons), CPA

(Company Secretary and Chief Financial Officer – appointed 2 September 2005)

Mr Saus has more than 25 years experience in commercial and financial management roles in private and public listed companies both in Australia and overseas. His experience spans a diverse range of industries including manufacturing, distribution and retail. Past roles include head of finance positions in high growth SME environments. Mr Saus is also the Chief Financial Officer of the Group.

directors' report

interests in the shares and options of the company

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

	Ordinary Shares	Interest in Ordinary Shares through Directorships of Corporate Shareholders
Elliott Kaplan	516,357	-
Brandon Penn	24,438,842	-
Dr Gary Weiss	-	-

meetings of directors

Attendances by each director during the year were:

	Board		Audit committee		Remuneration committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Elliott Kaplan	12	12	3	3	1	1
Hadrian Morrall	11	11	-	-	-	-
Brandon Penn	12	12	-	-	-	-
Dr Gary Weiss	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 industrial, protective and rigid packaging products.

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

overview of the company's business

Pro-Pac Packaging Limited is a diversified manufacturing and distribution company, providing end to end solutions for general industrial and primary packaging, safety and PPE, food services and food processing sectors with a national footprint.

operating and financial review

Results for the year ended 30 June 2012

The Company continues to grow strongly both organically and through acquisitions. The Company grew revenue by 15% to \$133m. EBITDA was up 11% to \$12m and profit before tax was up 16% at \$8.1m.

Revenue in the Industrial Division grew 29% to \$93m (2011: \$72m) and pre-tax earnings for the Industrial Division were

\$6.9m (2011: \$5.2m). The Rigid Division's sales were marginally lower at \$54.8m (2011: \$54.9m) but margin and cost pressures resulted in reduced pre-tax divisional earnings of \$4.6m (2011: \$5.0m).

The 2012 result included \$763,000 of one off relocation and rationalisation costs relating predominantly to the consolidation of the Industrial Division's sites and operations in NSW and QLD and adjusting for these costs, profit before tax was up 20% on the prior year.

While these costs impact on earnings in the short term, as previously highlighted, they provide the essential infrastructure to support continued growth, allowing PPG capacity to increase turnover through the new facilities by approximately 40% with minimal additional capex spend.

Financial position

The Group's balance sheet continues to strengthen with shareholders' equity of the consolidated Group increasing by \$34m to \$96m, as a result of further equity issued and the Group's earnings performance for the year. At balance date the Company had virtually no net debt and undrawn bank facilities of approximately \$24m, placing the Company in a very strong position to pursue its stated acquisition policy.

Capital structure

During the year 62.2m ordinary shares were issued as part of an equity raising, a further 4.7m were issued under the Dividend Reinvestment Plan and 4.1m shares were issued as part consideration to vendors of businesses acquired during the year. At 30 June 2012 there were 211m shares on issue.

Operating activities

During the year the Group completed eight acquisitions as detailed in note 24 (Business Combinations).

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

Outlook

Looking forward the momentum is continuing and the growth prospects remain strong throughout the Group with good organic growth predicted from the existing businesses. This growth will come from continued cross selling of additional products into the existing customer base as well as capitalising on the Company's aggressive sales and marketing activities. The Company has embarked on a focused strategy of growing its food service and food related business silos which it views as strong growth sectors in the Australian industrial landscape, where the Company currently has minimal overall market share.

The Company has a pipeline of good quality accretive acquisitions some of which are expected to close in the first half of this financial year.

dividends

A fully franked interim dividend of one cent per share was paid on 12 April 2012. In August 2012, the Company declared a fully franked final dividend of one cent per share. The record date for determining entitlement to the dividend is 11 September 2012 and the dividend will be paid on 25 September 2012. The Company's Dividend Reinvestment Plan will not apply to this dividend.

significant changes in the state of affairs

During the year the Company undertook a \$28m equity raising pursuant to which 62.2m shares were issued. The Group also completed eight acquisitions during the year under review.

significant events subsequent to balance date

On 10 September 2012, Pro-Pac Packaging (Aust) Pty Limited, a wholly owned subsidiary company, purchased the business and assets of Start Food-Tech Australia Pty Ltd ("SFT"). SFT is a Victorian based national supplier of packaging consumables and products to the food processing industries.

likely developments

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

environmental regulation and performance

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

indemnification and insurance of directors and officers

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

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

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 Dr Gary Weiss (Chairman) and Mr Elliott Kaplan both of whom are Non-Executive Directors.

directors' report

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

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

Non-Executive Director remuneration

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

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

The remuneration of the Company's Non-Executive Directors for the period ending 30 June 2012 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 2012 is set out in Table 1 of this report.

Employment contracts

Chief Executive Officer

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

The Company or the executive may terminate the service agreement by giving the other party three months notice.

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

Senior Management

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

Event	Company Policy
Resignation / notice period	3 months or less
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (ie 'golden handshakes')	None

Executive Long Term Incentive Plan (ESPP)

The Company has established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act. There are currently 1,535,000 shares issued to employees under the Plan.

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

// No Shares under the ESPP will be allotted unless the requirements of the *Corporations Act 2001* and the ASX Listing Rules have been complied with.

// Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).

// Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to the employee.

// The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.

// The term of the loans and the vesting period for the shares from the date of issue of shares is 3 years.

// The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.

// If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares surrendered in full settlement of the outstanding loan balance.

Key Management Personnel at 30 June 2012

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

Remuneration of Key Management Personnel

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

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	
			\$	\$	\$	\$	\$	\$
Elliott Kaplan	2012	60,000	-	-	-	-	60,000	-
	2011	46,667	-	-	-	-	46,667	-
Gary Weiss	2012	4,000	-	-	-	-	4,000	-
	2011	-	-	-	-	-	-	-
Hadrian Morrall	2012	193,938	22,980	17,590	-	-	234,508	-
	2011	206,324	20,824	18,267	-	-	245,415	-
Brandon Penn	2012	220,184	-	19,816	-	-	240,000	-
	2011	228,652	-	20,579	-	-	249,231	-
Wendy Penn	2012	180,000	8,000	16,200	-	-	204,200	-
	2011	180,000	-	16,138	-	-	196,138	-
Mark Saus	2012	191,000	-	17,189	-	2,402	210,591	5%
	2011	175,687	-	16,355	-	2,402	194,444	-
David Herlihy	2012	-	-	-	-	-	-	-
	2011	40,000	-	-	-	-	40,000	-
Total	2012	849,122	30,980	70,795	-	2,402	953,299	-
Remuneration	2011	877,330	20,824	71,339	-	2,402	971,895	-

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directors' report

Options issued as part of remuneration for the year ended 30 June 2012

No options were granted as remuneration during the year ended 30 June 2012.

Shares and Loans issued under the ESPP during the year ended 30 June 2012

200,000 shares and related loans with a total value of \$100,000 were issued under the ESPP during the year ended 30 June 2012.

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

2009	ESPP Shares (number)	ESPP Shares \$	ESPP Loans Outstanding \$	ESPP Issue Price \$	ESPP Expiry Date \$
Mark Saus	300,000	97,500	97,500	0.325	30 August 2013
Total	300,000	97,500	97,500		

Option Holdings of Key Management Personnel

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

Loans to Key Management Personnel

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

Other Transactions with Key Management Personnel

During the year the Company paid \$790,680 (inc. GST) to entities associated with directors Hadrian Morrall and Brandon Penn for property rental and outgoings, based on normal commercial terms and conditions.

share options

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.

rounding of accounts

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

auditors' independence declaration and non-audit services

Other than as disclosed in Note 31, there were no non-audit services provided by the entity's auditors UHY Haines Norton.

The Auditors' independence declaration as required under section 307C of the *Corporations Act 2001* for the year end 30 June 2012 has been received and can be found on page 10 of the Directors' report.

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

Signed at Sydney on 25 September 2012.

Elliott Kaplan
Chairman

Brandon Penn
Director

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auditors' independence declaration

under section 307C of the *Corporations Act 2001*

To the Directors of Pro-Pac Packaging Limited

As auditor for the audit of Pro-Pac Packaging Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 25 September 2012.

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corporate governance statement

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

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

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

- Principle 1 – Lay solid foundations for management and oversight
- Principle 2 – Structure the Board to add value
- Principle 3 – Promote ethical and responsible decision making
- Principle 4 – Safeguard integrity in financial reporting
- Principle 5 – Make timely and balanced disclosure
- Principle 6 – Respect the rights of shareholders
- Principle 7 – Recognise and manage risk
- Principle 8 – Remunerate fairly and responsibly

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

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

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

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

ASX Principle 1 - Lay solid foundations for management and oversight

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

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

Role of the Board

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

corporate governance statement

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

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

ASX Principle 2 - Structure the Board to add value

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

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

Structure of the Board

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

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

- // a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company

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

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

Name	Reason for non-compliance
Brandon Penn <i>Executive Director</i>	Mr Penn is employed by the Company in an executive capacity, is a substantial shareholder and a supplier of leasehold premises.

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

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

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

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

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

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

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

- // act honestly, in good faith and in the best interests of the Company as a whole;
- // perform the functions of office and exercise the powers attached to that office with a degree of care and diligence that a reasonable person would exercise if he were a Director in the same circumstances; and

// consider matters before the Board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the Company.

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

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

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

Name	Term in office
Elliott Kaplan	7 years and 8 months
Brandon Penn	5 years and 1 month
Gary Weiss	4 months

The Company now complies with the following best practice recommendations although this was not the case throughout the financial year ended 30 June 2012:

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

Evaluation of the Board, its committees and directors is undertaken by the Chairman during the course of the year.

Nomination and appointment of new directors

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

ASX Principle 3 - Promote ethical and responsible decision-making

Companies should actively promote ethical and responsible decision-making.

- // Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:
 - the practices necessary to maintain confidence in the company's integrity;
 - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and

- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

- // Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.
- // Recommendation 3.3: Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.
- // Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole, organisation, women in senior executive positions and women on the board.
- // Recommendation 3.5: Companies should provide the information indicated in the Guide to reporting on Principle 3.

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

Code of Conduct

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

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

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

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

Diversity at Pro-Pac

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

The company continually monitors the number of females in executive, manager, supervisory and other roles in the

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business. A summary of the number of females and males in the company records:

	Women	Men
Executive managers	1	3
Managers	9	12
Staff	121	232
Total	131	247

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

	Women	Men
Full time	112	231
Part time	12	4
Casual	7	12
Total	131	247

Securities Trading Policy

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

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

ASX Principle 4 - Safeguard integrity in financial reporting

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

// Recommendation 4.1: The board should establish an audit committee.

// Recommendation 4.2: The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors

- is chaired by an independent chair, who is not chair of the board
- has at least three members.

// Recommendation 4.3: The audit committee should have a formal charter.

// Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.

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

Audit Committee

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

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

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

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

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

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

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

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

ASX Principle 5 - Make timely and balanced disclosure

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

// Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

// Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.

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

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

ASX Principle 6 - Respect the rights of shareholders

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

// Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

// Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.

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

A representative from the auditors of Pro-Pac attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content

of the auditor's report. Shareholders are given the opportunity to raise questions with any of the Directors at shareholder meetings, both formally and informally.

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

ASX Principle 7 - Recognise and manage risk

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

// Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.

// Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

// Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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

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

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

In performing this function, the Committee receives periodic reports from the external auditor, senior management and, in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the group's insurance program. In line with *ASX Principle 7*, Pro-Pac adopted the policy requiring the Chief Executive Officer and Chief Financial Officer to confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound

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system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. The board has received the relevant declarations on 25 September 2012.

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

ASX Principle 8 - Remunerate fairly and responsibly

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

- // Recommendation 8.1: The board should establish a remuneration committee.
- // Recommendation 8.2: The remuneration committee should be structured.
- // Recommendation 8.3: Clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.
- // Recommendation 8.4: Provide the information indicated in the Guide to reporting on Principle 8.

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

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

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

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

To do this the Committee, among other things, is responsible for reviewing and monitoring executive performance, remuneration and incentive policies and the manner in which

they should operate, the introduction and operation of share plans, executive succession planning and development programs to ensure that they are appropriate to the Group's needs and the remuneration framework for Directors (as approved by shareholders). The Committee may consult with remuneration advisors to Pro-Pac to assist in its role.

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

Remuneration of non-executive Directors is in accordance with resolutions of shareholders in 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.

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consolidated statement of comprehensive income

for the year to 30 June 2012

	Notes	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Revenue			
Sale of goods		133,053	115,238
Interest income		106	93
Reversal of deferred acquisition consideration		-	247
Total Revenue		133,159	115,578
Expenses			
Amortisation of prepaid royalty	15	322	322
Depreciation expense		2,493	2,315
Distribution costs		4,050	4,029
Employee benefits expense		23,785	21,071
Finance costs		1,160	1,287
Occupancy costs		4,771	4,083
Other expenses from ordinary activities		7,129	6,871
Raw materials and consumables used		80,545	68,186
Rationalisation and relocation expenses		763	403
Total Expenses		125,018	108,567
Profit before income tax from continuing operations		8,141	7,011
Income tax expense	5	(2,373)	(1,964)
Profit after income tax expense for the year		5,768	5,047
Other comprehensive income		-	-
Total comprehensive income for the year		5,768	5,047
Earnings per share (cents per share)			
- Basic earnings per share	6	3.65	3.74
- Diluted earnings per share	6	3.61	3.74

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

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consolidated statement of financial position

as at 30 June 2012

	Notes	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Assets			
Current assets			
Cash and cash equivalents	8	3,911	1,461
Trade and other receivables	10	25,599	19,852
Inventories	11	18,698	13,057
Prepayments	15	1,370	1,172
Total current assets		49,578	35,542
Non-current assets			
Property, plant and equipment	12	14,921	13,099
Intangible assets	13	56,226	46,758
Deferred tax assets	14	1,559	962
Prepayments	15	672	994
Total non-current assets		73,378	61,813
TOTAL ASSETS		122,956	97,355
Liabilities			
Current liabilities			
Trade and other payables	17	18,683	14,344
Borrowings	18	1,745	1,670
Provisions	19	2,597	2,212
Current tax liabilities	5	474	918
Total current liabilities		23,499	19,144
Non-current liabilities			
Provisions	19	498	395
Borrowings	18	2,572	15,657
Total non-current liabilities		3,070	16,052
TOTAL LIABILITIES		26,569	35,196
NET ASSETS		96,387	62,159
EQUITY			
Issued Capital	20	85,285	54,005
Reserves		56	44
Retained earnings		11,046	8,110
TOTAL EQUITY		96,387	62,159

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

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consolidated statement of cash flows

for the year to 30 June 2012

	Notes	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		128,887	112,462
Payments to suppliers and employees (inclusive of GST)		(123,920)	(104,435)
Interest received		106	93
Finance costs		(1,160)	(1,241)
Income tax paid		(3,096)	(2,741)
Net cash flows provided by/(used in) operating activities	9	817	4,138
Cash flows from investing activities			
Payments for property, plant and equipment		(4,268)	(3,676)
Proceeds from sale of property, plant and equipment		336	91
Payments for unincorporated businesses net of cash acquired		(7,628)	(3,049)
Net cash flows used in investing activities		(11,560)	(6,634)
Cash flows from financing activities			
Payment of hire purchase and finance lease liabilities		(2,135)	(1,549)
Finance leases raised		2,220	1,691
Proceeds from borrowing		6,400	2,500
Repayment of loans		(19,469)	-
Proceeds from issue of shares		28,000	-
Dividend paid		(918)	(756)
Share issue transaction costs		(905)	-
Net cash flows provided/(used in) by financing activities		13,193	1,886
Net increase/(decrease) in cash and cash equivalents		2,450	(610)
Cash and cash equivalents at beginning of financial year		1,461	2,071
Cash and cash equivalents at end of financial year	8	3,911	1,461
Non-cash financing transactions			
Hire purchase and finance lease liabilities raised		2,220	1,691
Issue of shares for dividend re-investment plan		1,914	1,948

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

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consolidated statement of changes in equity

for the year to 30 June 2012

	Issued capital \$000's	Retained earnings \$000's	Option reserve \$000's	Total equity \$000's
Consolidated				
Balance as at 30 June 2010	52,057	5,767	30	57,854
Issue of shares for dividend re-investment plan	1,948	-	-	1,948
Dividend paid	-	(2,704)	-	(2,704)
Recognition of share based payments	-	-	14	14
Total comprehensive income for the year	-	5,047	-	5,047
Balance as at 30 June 2011	54,005	8,110	44	62,159
Issue of shares for dividend re-investment plan	1,914	-	-	1,914
Dividend paid	-	(2,832)	-	(2,832)
Shares issued to vendors of businesses acquired	1,998	-	-	1,998
Recognition of share based payments	-	-	12	12
Shares issued under share placement	28,000	-	-	28,000
Cost of raising shares	(905)	-	-	(905)
Tax effect on cost of raising shares	273	-	-	273
Total comprehensive income for the year	-	5,768	-	5,768
Balance as at 30 June 2012	85,285	11,046	56	96,387

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

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notes to the financial statements

for the year to 30 June 2012

note 1: corporate information

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2012 was approved for issue in accordance with a resolution of the Directors on 25 September 2012.

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

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

Comparatives

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

note 2: summary of significant accounting policies

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

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

AASB 2010-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2010-4 amendments from 1 July 2011. The amendments made numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provided clarification of disclosures in AASB 7 'Financial Instruments Disclosures' in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments, clarified that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial

Instruments' and provided guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'.

AASB 2010-5 Amendments to Australian Accounting Standards

The consolidated entity has applied AASB 2010-5 amendments from 1 July 2011. The amendments made numerous editorial amendments to a range of Australian Accounting Standards and Interpretations including amendments to reflect changes made to the text of *International Financial Reporting Standards* by the International Accounting Standards Board.

AASB 124 Related Party Disclosures (December 2009)

The consolidated entity has applied AASB 124 (revised) from 1 July 2011. The revised standards simplified the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition a subsidiary and an associate with the same investor are related parties of each other, entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party and the second and third entities are related to each other.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfer of Financial Assets

The consolidated entity has applied AASB 2010-6 amendments from 1 July 2011. These amendments add and amended disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved the risk associated with them. Additional disclosures are now required when (i) an asset is transferred but is not derecognised and (ii) when assets are derecognised but the consolidated entity has a continuing exposure to the asset after the sale.

AASB 1054 Australian Additional Disclosures

The consolidated entity has applied AASB 1054 from 1 July 2011. The standard sets out the Australian-specific disclosures as a result of Phase 1 of the Trans-Tasman Convergence Project, which are in addition to International Financial Reporting Standards for entities that have adopted Australian Accounting Standards.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project

The consolidated entity has applied AASB 2011-1 amendments from 1 July 2011. These amendments made changes to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to *International Financial Reporting Standards (IFRSs)* and

notes to the financial statements

for the year to 30 June 2012

note 2: summary of significant accounting policies (cont.)

harmonisation between Australian and New Zealand Standards. The amendments removed certain guidance and definitions from Australian Accounting Standards for conformity of drafting with IFRSs but without any intention to change requirements.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation the Equity Method and Proportionate Consolidation

The consolidated entity has applied AASB 2011-5 amendments from 1 July 2011. These amendments extended relief from consolidation the entity method and proportionate consolidation where the ultimate or intermediate parent applied not-for-profit Aus paragraphs in Australian IFRSs as adopted in Australia.

(b) Basis of preparation

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

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only, supplementary information about the parent entity is disclosed in note 29.

(c) Statement of compliance

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

(d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro-Pac Packaging Limited and its subsidiaries as at 30 June 2012.

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

The financial statements of subsidiaries are prepared for the reporting year ended 30 June 2012 using accounting policies consistent with the parent entity.

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

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated

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

(e) Business combinations

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

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

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

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

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

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

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

(f) Property, plant and equipment

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

The current depreciation rates are over 1 to 25 years.

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

Impairment

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

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

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

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Goodwill

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

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

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill

relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

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

(i) Recoverable amount of assets

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

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

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

(j) Inventories

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

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

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

(k) Trade and other receivables

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

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

notes to the financial statements

for the year to 30 June 2012

note 2: summary of significant accounting policies (cont.)

(l) Cash and cash equivalents

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

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

(m) Interest bearing loans and borrowings

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

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

(n) Provisions

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

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

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

(o) Equity-settled compensation

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

(p) Leases

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

under which the lessor effectively retains substantially all the risks and benefits.

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

(q) Revenue

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

Sale of goods

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

Interest

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

Dividends

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

(r) Income tax

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

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

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

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

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts

have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

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

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

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

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

(s) Other taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or

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

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

(t) Employee benefits

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

(u) Financial Instruments

Recognition

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

Loans and receivables

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

Financial liabilities

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

(v) Foreign Currency Transactions and Balances

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

(w) Critical Accounting estimates and judgements

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

notes to the financial statements

for the year to 30 June 2012

note 2: summary of significant accounting policies (cont.)

Key estimates

(i) Impairment

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

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

Key Judgements

(i) Provision for impairment of receivables

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

note 3: operating segments

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

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

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

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

Types of products and services by segment

Industrial packaging

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

Rigid packaging

The Rigid packaging division manufactures, sources and distributes containers and closures and related products and

services. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are manufactured and distributed to similar types of customers.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

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

Inter-segment transactions

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

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

Segment Assets

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

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

Segment Liabilities

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

Unallocated items

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

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

note 3: operating segments (cont.)

	Rigid packaging \$ 000's 2012	Industrial packaging \$ 000's 2012	Intersegment eliminations unallocated \$ 000's 2012	Total \$ 000's 2012	Rigid packaging \$ 000's 2011	Industrial packaging \$ 000's 2011	Intersegment eliminations unallocated \$ 000's 2011	Total \$ 000's 2011
(i) Segment performance								
<i>Twelve months ended 31 December</i>								
Revenue								
External sales	47,901	85,152		133,053	48,235	67,003		115,238
Inter-segment sales	6,850	7,756	(14,606)	-	6,618	4,895	(11,513)	-
Total segment revenue	54,751	92,908	(14,606)	133,053	54,853	71,898	(11,513)	115,238
EBITDA								
Depreciation and amortisation				12,010	6,687	6,192	(2,037)	10,842
Interest revenue				(2,815)				(2,637)
Finance costs				106				93
				(1,160)				(1,287)
Profit before income tax				8,141				7,011
Income tax expense				(2,373)				(1,964)
Profit after income tax				5,768				5,047
(ii) Segment assets								
<i>As at 30 June</i>								
Segment assets	45,534	73,206		118,740	44,778	50,409		95,187
<i>Reconciliation of segment assets to group assets</i>								
Inter-segment eliminations				(1,959)				(1,253)
Unallocated assets				6,175				3,421
– Deferred tax assets				1,559				962
– Other				4,616				2,459
Total group assets from continuing operations				122,956				97,355

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notes to the financial statements

for the year to 30 June 2012

note 3: operating segments (cont.)

	Rigid packaging \$ 000's 2012	Industrial packaging \$ 000's 2012	Intersegment eliminations unallocated \$ 000's 2012	Total \$ 000's 2012	Rigid packaging \$ 000's 2011	Industrial packaging \$ 000's 2011	Intersegment eliminations unallocated \$ 000's 2011	Total \$ 000's 2011
(iii) Segment liabilities								
<i>As at 30 June</i>								
Segment liabilities	10,988	16,531		27,519	10,740	11,376		22,116
<i>Reconciliation of segment liabilities to group liabilities</i>								
Inter-segment eliminations				(1,665)				(1,038)
Unallocated liabilities				715				14,118
– Deferred tax liabilities				-				-
– Other liabilities				715				14,118
Total group liabilities from continuing operations				26,569				35,196

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

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
note 4: expenses		
Bad and doubtful debts – trade	199	143
Rental expense on operating leases: – minimum lease payments	4,453	3,842

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 5: income tax

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

Statement of comprehensive income

Current income tax

Current income tax charge/(refund)	2,664	2,205
Adjustments in respect of previous years	34	(87)

Deferred income tax

Relating to temporary differences	(325)	(154)
Income tax expense/(refund) in statement of comprehensive income	2,373	1,964

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 2012 is as follows:

Accounting profit before tax	8,141	7,011
At the statutory income tax rate of 30%	2,442	2,103
Special tax allowances net of expenditure not allowable for tax purposes	(17)	(52)
Adjustments in respect of previous years	(52)	(87)
At effective income tax rate of 29.1% (2011: 28.0%)	2,373	1,964
Income tax expense reported in statement of comprehensive income	2,373	1,964

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 2012 and 30 June 2011.

Current tax liability	474	918
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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 2012	Consolidated 2011
Net profit attributable to equity holders (\$000's)	5,768	5,047
Weighted average number of ordinary shares for basic earnings per share	158,176,354	135,092,131
Basic earnings per share (cents per share) *	3.65	3.74
Diluted earnings per share (cents per share) *	3.61	3.74

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

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notes to the financial statements

for the year to 30 June 2012

note 7: dividends paid and proposed

On 29 August 2012, the Company declared a fully franked final dividend of 1.0 cent per share. The record date for determining entitlements to the dividend is 11 September 2012 and the dividend will be paid on 25 September 2012. The Company's Dividend Reinvestment Plan did not apply to the final dividend. When combined with PPG's interim dividend of 1.0 cent, paid on 12 April 2012, this brings total fully franked dividends for the 2011/12 financial year to 2.0 cents per share.

	2012 \$000's	2011 \$000's
Declared and paid during the year:		
Final dividend for 2011 – 1 cent per ordinary share (2010 – 1 cent per ordinary share)	1,397	1,338
Interim dividend for 2012 – 1 cents per ordinary share (2011 – 1 cent per ordinary share)	1,435	1,366
	2,832	2,704
Proposed for approval at the Directors Meeting (not recognised as a liability as at 30 June):		
Final dividend for 2012 – 1 cent per ordinary share (2011 – 1 cent per ordinary share)	2,110	1,397
Franking credit balance		
As indicated in note 5, the financial report has been prepared on the basis that the group has adopted the provisions of the tax consolidation regime for the years ended 30 June 2012 and 30 June 2011. As such franking credits arising from the other Group companies totalling \$12,481,697 (2011: \$10,599,156) will be available to the parent entity.		
Franking credits available at the reporting date based on a tax rate of 30%	10,599	9,016
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	3,097	2,742
Franking credits available for subsequent financial years based on a tax rate of 30%	13,696	11,758
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	(1,214)	(1,159)
Net franking credits available based on a tax rate of 30%	12,482	10,599

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 8: cash and cash equivalents

Cash at bank and in hand	3,911	1,461
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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	3,911	1,461
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Reconciliation of cash

For the purposes of the Statement of cash flow, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	3,911	1,461
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note 9: cashflow information**(a) Reconciliation from the net profit after tax to the net cash flows from operations**

Net profit after tax	5,768	5,047
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Add/(Less) non-cash items:

Depreciation and amortisation of plant and equipment	2,493	2,315
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Amortisation of prepaid royalty	322	322
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(Profit)/Loss on disposal of assets	257	156
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Movement in income tax provision	(441)	(618)
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Movement in deferred tax assets and liabilities	(283)	(157)
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Movement in provision for bad debts	87	28
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Other non-cash movements	11	6
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Changes in assets and liabilities:

Receivables	(5,830)	(4,457)
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Inventories	(1,973)	(1,299)
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Payables	227	2,614
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Provisions	378	257
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Prepayments	(199)	(76)
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Net cash flows from operating activities	817	4,138
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(b) Non-cash financing and investing activities

1. During the year, the company issued shares to the value of \$1,914,364 (2011: \$1,948,514) in accordance with the dividend reinvestment plan.

2. During the year, the consolidated Group acquired plant with an aggregate value of \$2,219,825 (2011: \$1,690,580) by means of finance leases. These acquisitions are not reflected in the statement of cash flow.

(c) Credit standby arrangements with banks

Credit facility	1,000	1,000
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Amount utilised	-	-
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Loan facilities	24,100	20,100
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Amount utilised	-	13,077
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notes to the financial statements

for the year to 30 June 2012

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
note 10: trade and other receivables		
Current:		
Trade receivables	23,779	19,463
Provision for impairment of receivables	(309)	(219)
Opening balance	(219)	(191)
Additional provision recognised	(289)	(171)
Receivables written off during the year as uncollectable	199	143
Other debtors	2,129	608
Total current receivables	25,599	19,852

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

Credit risk – Trade and Other Receivables

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

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

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

	Gross amount \$000's	Past due & impaired \$000's	Past due but not impaired > 90 \$000's	Past due but not impaired 61 - 90 \$000's	Within initial trade terms \$000's
Consolidated 2012					
Trade and term receivables	23,779	309	83	1,594	21,793
Other receivables	2,129	-	-	-	2,129
Total	25,908	309	83	1,594	23,922
2011					
Trade and term receivables	19,463	219	90	1,517	17,637
Other receivables	608	-	-	-	608
Total	20,071	219	90	1,517	18,245

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

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 11: inventories

Raw materials (lower of cost and net realisable value)	913	797
Finished goods (lower of cost and net realisable value)	17,785	12,260
Total inventories at lower of cost and net realisable value	18,698	13,057

note 12: property, plant and equipment**At 30 June**

Plant and equipment		
At cost	22,601	19,519
Accumulated depreciation	(7,680)	(6,456)
	14,921	13,063
Leased plant and equipment		
Capitalised leased plant and equipment	-	106
Accumulated depreciation	-	(70)
	-	36
Total property, plant and equipment	14,921	13,099

(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 2012 \$000's	Consolidated 2012 \$000's	Consolidated 2012 \$000's
	Owned	Leased	Total
Balance at the beginning of the year	13,063	36	13,099
Additions arising from acquisitions	663	-	663
Additions	4,246	-	4,246
Disposals	(594)	-	(594)
Reclassifications	26	(26)	-
Depreciation charge for the year	(2,483)	(10)	(2,493)
Carrying amount at the end of the year	14,921	-	14,921

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

notes to the financial statements

for the year to 30 June 2012

	Notes	Consolidated 2012 \$000's	Consolidated 2011 \$000's
note 13: intangible assets			
Goodwill			
Carrying amount at beginning of the year		46,758	44,477
Acquisition through business combinations	24	9,468	2,281
Closing value		56,226	46,758
At 30 June			
Gross		56,226	46,758
Accumulated impairment losses		-	-
Net carrying value		56,226	46,758
Impairment Test for Goodwill			
The Group and all of its subsidiaries are divided into two major cash generating units as these are the smallest groups of identifiable assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated to the cash-generating-units for impairment testing.			
The recoverable amount of the cash generating unit has been determined based on a value-in-use calculation. Based on the value-in-use calculations undertaken by management, Goodwill has not been impaired (see note 26).			
note 14: deferred tax assets			
Deferred tax assets			
Deferred tax assets comprise:			
Provisions and other timing differences		1,338	893
Transactions costs on equity issue		221	69
		1,559	962
Reconciliation of gross movements			
The overall movement in the deferred tax account is as follows:			
Opening balance		962	805
Tax effect of share issue cost		272	-
Charge to statement of comprehensive income		325	157
Closing balance		1,559	962
Deferred tax assets			
The movement in deferred tax assets for each temporary difference during the year is as follows:			
Provisions and other timing differences at 1 July			
Reclassification		73	-
Credit to statement of comprehensive income		372	164
At 30 June		1,338	893
Transaction cost to equity issue at 1 July			
Tax effect of share issue cost		289	-
Reclassification		(73)	-
Charge to statement of comprehensive income		(64)	(7)
At 30 June		221	69

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 15: prepayments

(a) Current prepayments

Other prepayments	1048	850
Prepaid royalty	322	322
Total current prepayments	1,370	1,172

(b) Non-current prepayments

Prepaid royalty	672	994
Total non-current prepayments	672	994

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 2012 amounted to \$322,082 (2011: \$322,082).

note 16: employee benefits

Executive Long Term Incentive Plan

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

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

- // No Shares under the ESPP will be allotted unless the requirements of the *Corporations Act 2001* and the ASX Listing Rules have been complied with.
- // Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- // Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- // The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- // The term of the loans and the vesting period for the shares from the date of issue of the ESPP is 3 years.
- // The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- // If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares would be surrendered in full settlement of the outstanding loan balance.
- // During the year 200,000 shares were issued to staff and executives under the ESPP. At the end of the year 1,535,000 shares were in issue under the ESPP.
- // No other features of the benefit provided (including vesting conditions) were incorporated into the measurement of fair value.

notes to the financial statements

for the year to 30 June 2012

note 16: employee benefits (cont.)

Executive Long Term Incentive Plan (cont.)

// The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions: expected volatility, risk-free interest rate, expected life of option, share price, dividend yield and probability of achievement.

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

Grant Date	Expiry Date	Price	Balance at beginning of year	Granted	Exercised	Expired/forfeited	Balance at end of year
2012							
30/08/2010	30/08/2013	0.325	1,325,000				1,325,000
12/04/2011	11/04/2014	0.325	10,000				10,000
05/04/2012	04/04/2015	0.500	-	200,000			200,000
			1,335,000	200,000	-	-	1,535,000
2011							
30/08/2010	30/08/2013	0.325	1,325,000				1,325,000
12/04/2011	11/04/2014	0.325	10,000				10,000
			1,335,000	-	-	-	1,335,000

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 17: trade and other payables

Unsecured:		
Trade payables	13,278	11,567
GST payable	609	579
Other tax payable	448	405
Sundry creditors and accruals	4,348	1,793
	18,683	14,344

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.

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 18: interest bearing loans and borrowings

Current

Finance lease and hire purchase (see note 25)	1,737	1,670
Bank loan (secured)	8	-
	1,745	1,670

Non-current

Finance lease and hire purchase (see note 25)	2,572	2,580
Bank loan (secured)	-	13,077
	2,572	15,657

(a) The bank loan is secured as follows:

- i) first ranking registered equitable mortgage over Pro-Pac Packaging Limited and all wholly owned subsidiaries;
- ii) cross interlocking guarantees from Pro-Pac Packaging Limited and all wholly owned subsidiaries.

(b) The bank loan is subject to the following covenants:

- i) it will ensure that for each 2 consecutive reporting periods ending 30 June and 31 December, the ratio of EBITDA to total debt service will not fall below 2.00:1 and further ensure that the ratio of EBITDA to total debt service will not fall below 1.50:1 for any 6 month reporting period
- ii) it will ensure that for each preceding 12 calendar month period the ratio of total senior debt to EBITDA does not exceed 3.00:1; and
- iii) it will ensure that for each 6 month period ending 30 June and 31 December, the ratio of total tangible assets to total senior debt will not fall below 1.45:1.

(c) The bank loan facility is subject to review on 30 November 2013.

note 19: provisions

Current

Employee entitlements		
Opening balance	2,212	1,837
Arising on acquisition of business combinations	53	39
Additional provisions	1,816	1,651
Amount used	(1,484)	(1,315)
Closing balance	2,597	2,212

Non-current

Employee entitlements		
Opening balance	395	437
Arising on acquisition of business combinations	58	37
Additional provisions	140	(4)
Amount used	(95)	(75)
Closing balance	498	395

notes to the financial statements

for the year to 30 June 2012

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 20: issued capital

Ordinary shares Issued and fully paid	85,285	54,005
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	Number	\$000's
Movement in ordinary shares on issue		
Balance at 1 July 2010	133,143,012	52,057
Issue of shares under the Executive Long Term Incentive Plan	1,335,000	-
Cancellation of shares under the Executive Long Term Incentive Plan	(675,000)	-
Issue of shares under the dividend re-investment plan	5,932,564	1,948
Balance at 30 June 2011	139,735,576	54,005
Issue of shares under the Executive Long Term Incentive Plan	200,000	-
Capital raising	62,222,223	28,000
Cost of raising shares	-	(632)
Issue of shares under the dividend re-investment plan	4,746,673	1,914
Shares issued to vendors of businesses acquired	4,083,332	1,998
Balance at 30 June 2012	210,987,804	85,285

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

Share buy-back

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

Capital risk management

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

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

The consolidated entity and parent entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment.

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

The capital risk management policy remains unchanged from the 30 June 2011 Annual Report.

note 21: financial risk management objectives and policies

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

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

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

Interest rate risk

The Group's exposure to interest rate risk is limited to interest receivable and payable on bank accounts and drawn down bank loans. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. All cash balances are at call and the average interest rate on the deposits is 4.1%.

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 18.4% of purchases of materials and capital items. Forward contracts are used to manage foreign currency risk.

Commodity price risk

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

Credit risk

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

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

Liquidity risk

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

note 22: financial instruments

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

notes to the financial statements

for the year to 30 June 2012

note 22: financial instruments (cont.)

Interest rate risk

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

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount per the statement of financial position	Weighted average interest rate
	2012 \$000's	2012 \$000's	2012 \$000's	2012 \$000's	2012 %
Consolidated					
(i) Financial assets					
Cash Assets	3,898	-	13	3,911	4.0
Receivables	-	-	25,599	25,599	
Total financial assets	3,898	-	25,612	29,510	
(ii) Financial liabilities					
Finance Leases (current)	-	1,745	-	1,745	7.9
Finance Leases (non-current)	-	2,572	-	2,572	7.9
Bank loans (current)	-	-	-	-	7.0
Bank loans (non-current)	-	-	-	-	7.0
Payables (current)	-	-	18,683	18,683	
Total financial liabilities	-	4,317	18,683	23,000	
Net financial assets/(liabilities)	3,898	(4,317)	6,929	6,510	

There is no interest rate applicable on receivables or payables.

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

note 22: financial instruments (cont.)

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

Year ended 30 June 2012	< 1 year \$000's	>1 - <2 years \$000's	>2 - <3 years \$000's	>3 - <4 years \$000's	>4 - <5 years \$000's	> 5 years \$000's	Total \$000's
Consolidated							
Cash assets	3,898	-	-	-	-	-	3,898
Finance leases	1,745	1,372	840	253	107	-	4,317
Bank loans	-	-	-	-	-	-	-
Year ended 30 June 2011	< 1 year \$000's	>1 - <2 years \$000's	>2 - <3 years \$000's	>3 - <4 years \$000's	>4 - <5 years \$000's	> 5 years \$000's	Total \$000's
Consolidated							
Cash assets	1,452	-	-	-	-	-	1,452
Finance leases	1,670	1,207	807	481	85	-	4,250
Bank loans	-	13,077	-	-	-	-	13,077

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

Sensitivity analysis

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

	Consolidated Profit \$000's	Consolidated Equity \$000's
2012		
+/- 1% in interest rates	+/- 110	+/- 110
+/- 10% in AUD / USD	+/- 1,586	+/- 1,586
2011		
+/- 1% in interest rates	+/- 130	+/- 130
+/- 10% in AUD / USD	+/- 994	+/- 994

notes to the financial statements

for the year to 30 June 2012

note 23: controlled entities

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

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

Entities subject to class order relief

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

Pro-Pac Packaging Limited

Plastic Bottles Pty Ltd

Pro-Pac Group Pty Ltd

Pro-Pac Packaging (Aust) Pty Ltd

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

note 24: business combinations

Acquisition of businesses

Pro-Pac Packaging (Aust) Pty Limited, a wholly owned subsidiary, acquired the business and assets of the following:

Effective Date	Acquired	Location	Business description
01/04/2012	Preferred Packaging	Sydney	Industrial packaging and safety products
01/03/2012	Deandy Packaging	Adelaide	Importer and distributor of food services packaging
01/01/2012	Hills Industrial Products	Sydney	Catalogue-based distributor
01/12/2011	Stanli Packaging	Adelaide	Industrial packaging and safety products
01/11/2011	Heron Professional Products	Perth	Industrial packaging and safety products
01/10/2011	Space Pac	Sydney	Void-fill
01/09/2011	Medirite	Sydney	Safety Products

Plastic Bottles Pty Ltd, a wholly owned subsidiary, acquired the business and assets of the following:

Effective Date	Acquired	Location	Business description
01/05/2012	Australian Pharmaceutical Containers	Sydney	Importer and distributors of pharmaceutical containers

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

	Fair Value \$000's
Assets	
Current Assets	
Inventories	3,668
Total Current Assets	3,668
Non-current Assets	
Property, plant and equipment	663
Deferred tax asset	45
Total Non-current Assets	708
Total Assets	4,376
Liabilities	
Current Liabilities	
Trade and other payables	393
Total Current Liabilities	393
Non-current Liabilities	
Other liabilities	58
Total Non-current Liabilities	58
Total Liabilities	451
NET ASSETS	3,925
Consideration Paid	
Cash	7,628
Deferred payments	3,052
Shares	1,998
Contingent liability	715
Total	13,393
GOODWILL	9,468

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notes to the financial statements

for the year to 30 June 2012

note 24: business combinations (cont.)

Part of the Groups business plan is to grow through both organic growth and acquisitions. Acquisitions are undertaken to expand the product offering and the sectors in which the Group operates.

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

For the year ended 30 June 2012, the acquired businesses contributed the following earnings to the consolidated Group.

	Period to 30 June 2012 Revenue \$000's	Period to 30 June 2012 Profit before income tax \$000's	Annualised as at June 2012 Revenue \$000's	Annualised as at June 2012 Profit before income tax \$000's
Medirite	5,933	584	7,120	701
Space Pac	1,029	131	1,372	174
Heron Professional Products	1,473	49	2,210	74
Stanli Packaging	1,190	133	2,040	228
Hills Industrial Products	2,880	382	5,760	764
Deandy Packaging	4,340	625	13,021	1,875
Australian Pharmaceutical Containers	349	57	1,398	227
Preferred Packaging	212	49	847	196
Total business acquisitions	17,407	2,010	33,768	4,240

note 25: commitments and contingencies

Operating lease commitments – Group as lessee

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

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

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

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

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Within one year	3,950	2,664
After one year but not more than five years	11,544	3,717
More than five years	1,352	-
	16,846	6,381

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:

	2012 Minimum payments \$000's	2012 Present value of payments \$000's	2011 Minimum payments \$ \$000's	2011 Parent value of payments \$000's
Within one year	2,031	1,737	1,996	1,670
After one year but not more than five years	2,797	2,572	2,884	2,580
Total minimum lease payments	4,828	4,309	4,880	4,250
Less amounts representing future finance charges	(519)	-	(630)	-
Present value of minimum lease payments	4,309	4,309	4,250	4,250

	2012 \$000's	2011 \$000's
Representing lease liabilities		
Current	1,737	1,670
Non-current	2,572	2,580
	4,309	4,250

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

notes to the financial statements

for the year to 30 June 2012

note 25: commitments and contingencies (cont.)

Contingent Liability

As at statement of financial position date, the Company issued security deposit guarantees and standby letters of credits to the value of \$1,412,517 to the landlords of rented premises and overseas suppliers.

Capital Expenditure Commitments

As at statement of financial position date the Company had no commitments for future capital expenditure.

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Capital commitments - Property, plant and equipment		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	89,141
One to five years	-	-
	-	89,141

note 26: impairment testing of indefinite life goodwill

Carrying amount of goodwill

Carrying amount of goodwill Industrial Division	31,839	22,660
Carrying amount of goodwill Rigid Division	24,387	24,098
Total carrying amount of goodwill	56,226	46,758

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

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

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

The following key assumptions were used in the discounted cash flow model for the industrial and rigid divisions:

- (a) 12.2% pre-tax discount rate; (2011: 14.5%)
- (b) 8% for industrial division (2011: 8%) and 1.6% for rigid division (2011: 3%) per annum projected revenue growth rate;
- (c) 8% for industrial division (2011: 8%) and 1.6% for rigid division (2011: 3%) per annum increase in operating costs and overheads.

The discount rate of 12.2% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

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

Sensitivity

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

- (a) the discount rate would need to increase to 13.8% for the Industrial division and to 15.5% for the Rigid division before goodwill would be impaired. A rate of 12.2% was used in the assessment of goodwill.
- (b) the EBITDA growth rate would need to decrease to 1% in the Industrial division and to negative 1.5% in the Rigid division before goodwill would be impaired. EBITDA growth rates of 8% and 1.6% respectively, were used in the assessment of goodwill for the Industrial and Rigid divisions respectively.

note 27: related party disclosure

Parent Entity

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

Subsidiaries

Interests in subsidiaries are set out in note 23.

Transactions with Key Management Personnel

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

	Consolidated 2012 \$000's	Consolidated 2011 \$000's
Hadrian Morrall		
• Remuneration paid	234,508	245,415
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	790,680	790,680
– 9 Widemere Road, Wetherill Park, NSW	587,055	587,055
– Unit 15/129 Robinson Road, Geebung, QLD	116,351	116,351
– 32 Hinkler Street, Mordialloc, VIC	87,274	87,274
Brandon Penn		
• Remuneration paid	240,000	249,231
• Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	790,680	790,680
– 9 Widemere Road, Wetherill Park, NSW	587,055	587,055
– Unit 15/129 Robinson Road, Geebung, QLD	116,351	116,351
– 32 Hinkler Street, Mordialloc, VIC	87,274	87,274

Total payments to related parties during the year ended 30 June 2012 was \$1,265,188 (2011: \$1,285,326).

notes to the financial statements

for the year to 30 June 2012

note 28: key management personnel disclosure

Key Management Personnel at 30 June 2012

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

Remuneration of Key Management Personnel

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

	2012 \$'000	Parent 2011 \$'000
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note 29: parent entity information

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

Profit for the year	4,258	3,010
Total comprehensive income	4,258	3,010
Total current assets	3,008	465
Total assets	87,336	55,161
Total current liabilities	2,042	1,140
Total liabilities	2,042	1,140
Equity		
Contributed equity	85,285	54,005
Reserves	-	-
Retained profits/(accumulated losses)	9	16
Total equity	85,294	54,021

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

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

note 30: events after the statement of financial position date

On 10 September 2012, Pro-Pac Packaging (Aust) Pty Limited, a wholly owned subsidiary company, purchased the business and assets of Start Food-Tech Australia Pty Ltd. Start Food-Tech Australia is a long established Victorian based national supplier of packaging consumables and products to the food processing industry with an annualised turnover of approximately \$11m. The fair value of property, plant and equipment is to be determined in order for the final acquisition accounting to be complete.

Consolidated 2012 \$000's	Consolidated 2011 \$000's
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note 31: auditors' remuneration

Amounts paid or due payable to UHY Haines Norton for:

- audit or review of the financial report	105,000	90,466
- due diligence relating to acquisitions	51,000	-

note 32: accounting standards issued or amended

A number of accounting standards have either been issued or amended since year end but are not effective for the financial year ended 30 June 2012. The Group does not at this time believe these have any material impact on the 2012 financial report or for the ensuing year.

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directors' declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 17 to 49, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards; and
 - (b) give a true and fair view of the Company's financial position at 30 June 2012 and of its performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
 - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the accounting standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view; and
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Board on 25 September 2012.

Elliott Kaplan
Chairman

Brandon Penn
Director

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independent auditor's report

To the members of Pro-Pac Packaging Limited

Report on the Financial Report

We have audited the accompanying financial report of Pro-Pac Packaging Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Pro-Pac Packaging Limited, would be in the same terms if given to the directors as at the date of the auditor's report.

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 2012 and of their performance for the year ended on that date; and
 - ii. complying with the Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Pro-Pac Packaging Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Franco Giannuzzi
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 27 September 2012.

additional company information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 14 September 2012.

(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	77	10,766	0.005
1,001-5,000	118	375,664	0.178
5,001-10,000	121	976,196	0.463
10,001-100,000	489	16,508,641	7.824
100,001 and over	109	193,116,537	91.530
Totals	914	210,987,804	100.00

There are seventy seven holders of unmarketable parcels totalling 10,766 shares representing 0.005% of the Company's issued capital.

(b) Twenty largest holders

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

Rank	Holder	No. Ordinary Shares	%
1	BENAMON PTY LTD	101,706,266	48.2
2	MR BRANDON ARI PENN	21,815,015	10.3
3	MR HADRIAN REUBEN MORRALL	6,846,468	3.2
4	NATIONAL NOMINEES LIMITED	6,611,011	3.1
5	AUST EXECUTOR TRUSTEES LTD <LANYON AUST VALUE FUND>	3,985,000	1.9
6	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PI POOLED A/C>	3,582,987	1.7
7	BNP PARIBAS NOMS PTY LTD <MASTER CUST DRP>	3,333,333	1.6
8	GALLEGO PTY LTD (DEANDY)	3,200,000	1.5
9	RUBI HOLDINGS PTY LTD < JOHN RUBINO S/F A/C>	3,000,000	1.4
10	MR BRANDON PENN & MRS WENDY PENN <CARLTASHA DISCRETIONARY A/C>	2,250,000	1.1
11	MILNAR PTY LTD	2,000,000	0.9
12	NIGHTINGALE PARTNERS PTY LTD	1,688,320	0.8
13	FOX INVESTMENTS PTY LTD <FOX FAMILY A/C>	1,405,314	0.7
14	J K M SECURITIES PTY LIMITED <LJK NOMS P/L PEN FUND A/C>	1,400,000	0.7
15	DERRIN BROTHERS PROPERTIES LTD	1,230,110	0.6
16	MRS NATALIE PENN	1,200,344	0.6
17	SONHILL INVESTMENTS PTY LTD <THE SONHILL FAMILY A/C>	1,085,618	0.5
18	MISCHKE INVESTMENTS PTY LTD <DELAFOSSÉ FAMILY A/C>	1,057,850	0.5
19	INVIA CUSTODIAN PTY LIMITED <ROYAL AUTO – STRATEGIC A/C>	1,000,000	0.5
20	MISCHKE INVESTMENTS PTY LTD <MISCHKE SUPER FUND A/C>	938,841	0.4
	Top 20	169,336,477	80.3
	Total	210,987,804	100.0

(c) Substantial shareholders

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

Bennamon Pty Limited	101,706,266 ordinary shares
Mr Brandon Penn	24,438,842 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 5,065,000. Shares are restricted in two categories:

ESPP Shares under escrow until 30 August 2013	1,325,000 ESPP shares
ESPP Shares under escrow until 14 April 2014	10,000 ESPP shares
ESPP Shares under escrow until 4 April 2015	200,000 ESPP shares
Ordinary shares held as security by the Company in terms of a sub-lease	330,000 ESPP shares
Vendor shares under escrow until 4 April 2013	3,200,000 Ordinary shares

(f) Business objectives

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

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Bottles Jars Caps closures Cubes Jerry cans Trays Triggers Pails Pouches and re... Custom printed boxes bags Cartons Tape Bubble
 Stretch wrap Strapping Void fill Padded mailers Plastic sheets Gloves Head, ear and face protection Hi-Visibility clothing Disposable protective
 apparel Signage Cups Wipers Napkins Disposable cutlery Food Trays Punnets Knives Meat trade tools Chain mesh gloves Lashing and ty
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 Toilet tissue Dispensers Sanitisers Cleaning chemicals Bin liners General industrial packaging Food service Washroom Bottles Jars Caps c
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 Meat trade tools Chain mesh gloves Lashing and ty
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 wrap machinery Carton
 Toilet tissue Dispensers
 Cubes Jerry cans Spr

Our Environment

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

Printed on Cyclus Offset // 100% Recycled Paper made from 100% Post Consumer Waste and is produced in EMAS accredited facilities.



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