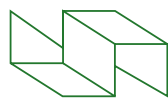


PRO-PAC Packaging Limited

ANNUAL REPORT 2007



PRO-PAC Packaging Limited
ACN 112 971 874



General Information

Pro-Pac Packaging Limited and Controlled Entities

Directors

John Read (Chairman)
Trevor Morrow (Managing Director)
Elliott Kaplan
Hadrian Morrall
Brandon Penn

Company Secretary

Mark Saus

Registered Office

6 Rich Street
Marrickville NSW 2204

Share Register

Registries Limited
Level 2, 28 Margaret Street
Sydney NSW 2000

Solicitors

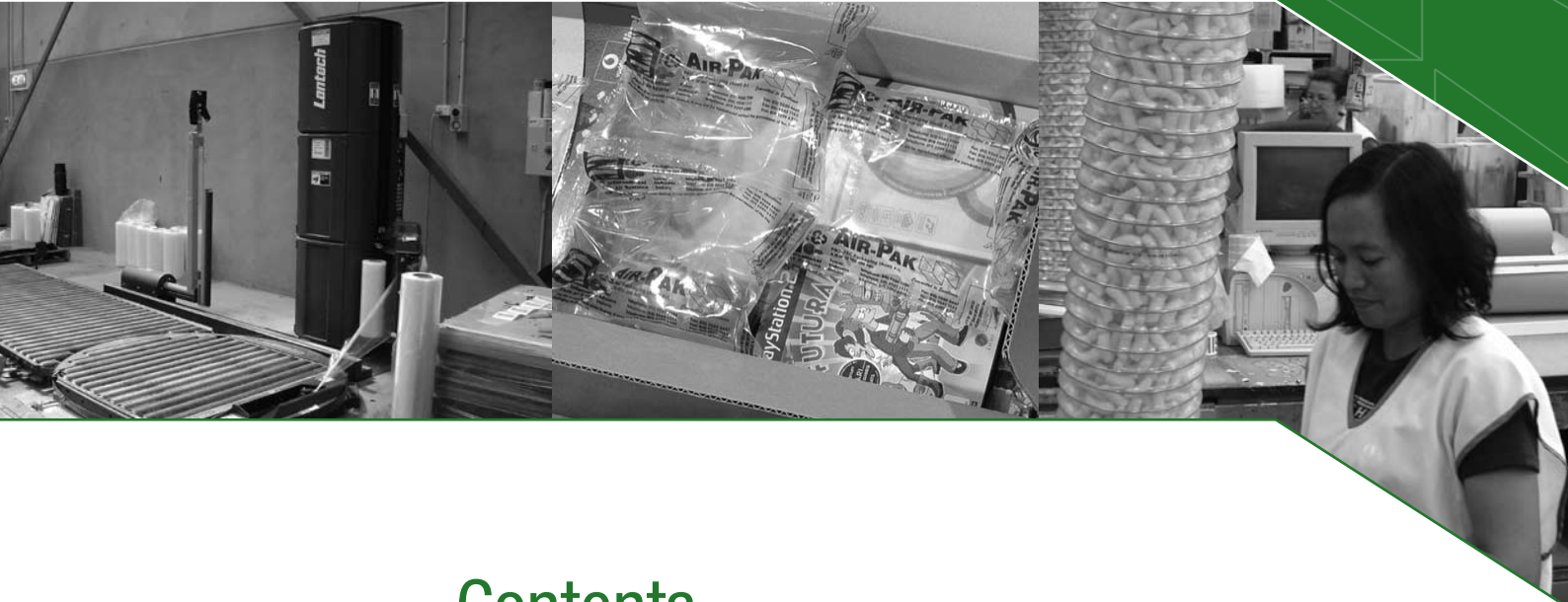
Thomson Playford
Australia Square Tower
Sydney NSW 2000

Bankers

Commonwealth Bank of Australia
52 Martin Place
Sydney NSW 2000

Auditors

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



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Chairman's Report

On behalf of the Board of Directors of Pro-Pac Packaging Limited ("the Company" or "Pro-Pac"), I am delighted to present this report for the year ended 30 June 2007 and to report on the key transactions that were completed subsequent to balance date.

This report provides a commentary on the results of the Company's core business for the fiscal year under review and a commentary on the acquisition of Plastic Bottles Pty Limited ("Plastic Bottles") which was effective 1 July 2007.

Revenue from core operations grew by 8% to \$26 million during the year under review primarily driven by the contribution from acquisitions completed during the period. Further revenue growth is anticipated in 2007/08 from the full year effect of these acquisitions. Strong revenue growth underpinned a 16% improvement in before tax profit from \$1.52 million to \$1.77 million. Net cash flow from operations remained buoyant at \$2 million for the period. Reductions in overhead costs as a percentage of sales associated with administration and systems when combined with improved sales resulted in a 15% growth in net profit after tax to \$1.23 million for the year ended 30 June 2007.

Subsequent to balance date, the Company announced the acquisition of the entire issued capital of Plastic Bottles for \$21.2 million. This transaction was completed on 16 August 2007. Plastic Bottles specialises in the manufacture, importation and distribution of packaging products including bottles, closures, pumps and triggers, drums and containers for a diverse range of customers and clients. Revenues in the year to 30 June 2007 exceeded \$45 million. The combined group has begun to realise the benefits of increased scale, cross selling and greater market penetration from the Plastic Bottles acquisition. The acquisition has also created significant new opportunities for acquisitive growth which are being actively pursued.

On 2 August 2007, the Company declared a final fully franked dividend of 1 cent per share to be paid on 14 October 2007. This brought total fully franked dividends for the year to 2 cents per share.

We enter the new year buoyed by the acquisition of Plastics Bottles, an infusion of new directorial and management talent, and an enhanced shareholder base. As previously advised to the market, the Company forecasts that the combined PPG business will generate revenues of approximately \$73 million in the 2007/08 financial year and combined group EBITDA of approximately \$8.5 million equivalent to estimated EBITDA earnings of 7.2 cents per share for the new financial year.

On behalf of your Board, I thank shareholders for their tangible support over the past 12 months and look forward with confidence to the new financial year.

John D. Read

Chairman

21 September 2007

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 2007, together with the Auditors' report thereon.

Directors

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

John Read

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

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

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

Trevor Morrow

BBS (Hons), MBS (Hons)
(Managing Director – appointed 10 July 2006. Appointed CEO on 18 April 2006)

Mr Morrow has extensive business experience in both the SME market (buying, building and selling businesses) and in corporate multinationals. This included successful tenures in senior executive positions for six years with Brambles, three years with Spotless and a term with ITW. His expertise has been gained mainly in environmentally sustainable industries including the packaging and recycling services.

Elliott Kaplan

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

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

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

Hadrian Morrall

(Executive Director – appointed 16 August 2007)

Mr Morrall has over 20 years experience in the plastics industry. He is a founding director of Plastic Bottles Pty Ltd (PB Group)

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

Brandon Penn

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

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

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

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

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

Peter Frampton

MA(Oxon), MAICD
(Non-Executive Director – appointed 21 March 2005, resigned 28 November 2006)

Jonathan Kahn

B.Com
(Non-Executive Director – appointed 16 February 2005, resigned 15 May 2007)

Company Secretary

Mark Saus

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

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

Directors' Report

Interests in the shares of the Company

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

	Ordinary Shares	Interest in Ordinary Shares through Directorships of Corporate Shareholders	Executive Long Term Incentive Plan Shares (Escrowed)
John Read	308,940	21,657,227	-
Trevor Morrow	263,500	-	1,000,000
Elliott Kaplan	1,405,727	7,066,284	-
Hadrian Morrall	11,895,200	-	-
Brandon Penn	17,842,800	-	-

Meetings of Directors

Attendances by each director during the year were:

	Board		Audit committee		Remuneration committee	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
John Read	7	7	2	2	1	1
Trevor Morrow	7	7	-	-	-	-
Elliot Kaplan	7	7	2	2	1	1
Peter Frampton	4	3	1	1	-	-
Jonathan Kahn	6	5	-	-	-	-

Principal Activities

Pro-Pac Packaging Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity during the year were the manufacture and distribution of biodegradable flowable void fill packaging and the distribution of general industrial packaging products. There were no significant changes to the nature of the activities during the year. Following the acquisition of Plastic Bottles Pty Ltd effective 1 July 2007, the Company's business activities have been expanded to include the manufacture and distribution of injection moulded and blow moulded containers and closures.

Overview of the Company's Business

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

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

The Group proposes to continue expanding its business through the development of new environmentally friendly protective packaging products and through further acquisitions of complementary industrial packaging and safety products distribution businesses.

Review of Operations and Operating Results

The Directors of Pro-Pac Packaging Limited (ASX:PPG) are pleased to provide this commentary on the performance of the Company for the financial year ended 30 June 2007.

As announced to the ASX on 2 July 2007, PPG acquired the entire issued share capital of Plastic Bottles Pty Limited (Plastic Bottles Group) with effect from 1 July 2007. This company transforming transaction was completed on 16 August 2007. As this transaction completed subsequent to balance date, the commentary below in the section styled "Results for the Year ended 30 June 2007" relates solely to the performance of the industrial packaging business whilst the section entitled "Outlook" confirms management guidance of the anticipated performance of the combined business.

Results for the Year Ended 30 June 2007

Revenue for the year to 30 June 2007 grew by 8% to \$26 million underpinning growth of 16% in before tax profit from \$1.52 million to \$1.77 million. Net cash flow from operations remained buoyant at \$2 million for the period under review. Net profit after tax grew by 15% from \$1.06 million to \$1.23 million for the year ended 30 June 2007.

Outlook

Following the acquisition of the Plastic Bottles Group with effect from 1 July 2007, as previously advised to the market, management forecasts that for the 2008 financial year, the combined PPG Group will generate revenues of approximately \$73 million and EBITDA of approximately \$8.5 million.

Dividends

On 2 August 2007, the Company declared a fully franked final dividend of 1 cent per share. The record date for determining entitlement to the dividend was 14 August 2007 and the dividend will be paid on 16 October 2007. The Company's Dividend Reinvestment Plan was applied to the final dividend at a discount of 3%. When combined with PPG's interim dividend of 1 cent, paid on 11 April 2007, this brings total fully franked dividends for the 2006/07 financial year to 2 cents per share.

Capital Structure

At 1 July 2006, the Company had 41,212,300 ordinary shares on issue. On 18 January 2007 an additional 1,200,000 shares were issued to employees and 260,000 shares were cancelled under the Company's Executive Long Term Incentive Plan (ESPP). During the year 1,103,137 shares were issued under the Dividend Re-investment Plan. At 30 June 2007 there were 43,255,437 shares on issue. Subsequent to the financial year end, a further 1,824,311 ESPP shares were cancelled and following the acquisition of the Plastic Bottles Group on 1 July 2007, a further 76,224,486 shares were issued. At the date of this report there are 117,655,612 shares in issue.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company which occurred during the financial year.

Significant Events Subsequent to Balance Date

On 14 August 2007, Pro-Pac Packaging shareholders approved the acquisition of Plastic Bottles Pty Limited for approximately \$21.2 million, to be satisfied by way of \$10,197,000 in cash and the issue of 29,738,000 new fully paid PPG shares to the vendors. A further possible amount of \$2 million will be paid in cash, if certain earnings targets are met.

Subsequent to balance date, the Company issued 29,738,000 shares to the vendors of the Plastic Bottles Group. The

Company also raised an additional \$17,200,000 through the issue of 46,486,486 shares under a share purchase plan and a share placement approved by the Shareholders. 1,824,311 ESPP shares issued to former employees were cancelled subsequent to balance date.

Likely Developments

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

Environmental Regulation and Performance

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

Indemnification and Insurance of Directors and Officers

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

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

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

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

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

Remuneration Report

Remuneration policy

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

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

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, Managing 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 2007 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 determining remuneration packages applicable to the board members and the Managing Director. The Managing Director determines the remuneration packages for the senior executives of the Company in accordance with compensation guidelines set by the Board.

The remuneration of the Managing Director and Senior Management for the year ending 30 June 2007 is set out in Table 1 of this report.

Employment contracts

Managing Director

The Company has entered into an executive service agreement with Trevor Morrow in relation to his role as managing director of the Company. The agreement expires on 30 June 2009. In his executive service agreement, Mr Morrow agrees all intellectual property rights created, developed or acquired by him in the course of his employment, belong to the Company.

The Company may terminate the executive's employment prior to 30 June 2009 without cause by providing the Executive 6 month's written notice, in the event of which the Company will pay to the Executive after notice has expired the lesser of the Executive's Total Salary package from the date the notice expired until 30 June 2009 or an equivalent of 12 month's Total Salary Package.

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

Senior Management

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

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

Executive Long Term Incentive Plan (ESPP)

The Company has established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act. There are currently 1,750,000 shares issued to employees under the Plan.

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

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

- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of shares is 3 years.
- The Shares will be registered in the names of the Participants from allotment, but will remain subject to

restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.

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

Key Management Personnel at 30 June 2007

John Read	Chairman (non-executive)
Trevor Morrow	Managing Director
Elliot Kaplan	Director (non-executive)
Jonathan Kahn	Director (non-executive) (Resigned 15 May 2007)
Peter Frampton	Director (non-executive) (Resigned 28 November 2006)
Mark Saus	Chief Financial Officer
Helen Bevan	National Operations Manager

Remuneration of Key Management Personnel

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

Table 1

		Short-term benefits		Post employment benefits	Other long term benefits	Share based payment	Total	
		Cash, salary & commissions	Cash profit share and non cash benefit	Super-annuation	Other	Equity and options	Performance based	
		\$	\$	\$	\$	\$	\$	
John Read	2007	50,000	-	4,500	-	-	54,500	-
	2006	42,945	-	3,865	-	-	46,810	-
Trevor Morrow	2007	234,065	-	19,935	-	9,420	263,420	-
	2006	47,354	-	5,500	-	-	52,854	-
Elliott Kaplan	2007	36,000	-	-	-	-	36,000	-
	2006	36,000	-	-	-	-	36,000	-
Jonathan Kahn	2007	31,500	-	-	-	-	31,500	-
	2006	200,523	-	13,310	-	-	213,833	-
Peter Frampton	2007	15,000	-	-	-	-	15,000	-
	2006	36,000	-	-	-	-	36,000	-
Mark Saus	2007	152,181	-	11,819	-	942	164,942	-
	2006	123,341	-	9,992	-	-	133,333	-
Helen Bevan	2007	120,190	-	8,927	-	942	130,059	-
	2006	3,815	-	343	-	-	4,158	-
Total	2007	638,936	-	45,181	-	11,304	695,421	-
Remuneration	2006	489,978	-	33,010	-	-	522,988	-

Directors' Report

Options issued as part of remuneration for the period ended 30 June 2007

No options were granted as remuneration during the period ended 30 June 2007.

Shares and Loans issued under the ESPP during the year ended 30 June 2007

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

2007	ESPP Shares (number)	ESPP Shares \$	ESPP Loans Outstanding \$	ESPP Issue Price \$	ESPP Expiry Date
Trevor Morrow	1,000,000	365,000	365,000	0.365	18 January 2010
Mark Saus	100,000	36,500	36,500	0.365	18 January 2010
Helen Bevan	100,000	36,500	36,500	0.365	18 January 2010
Total	1,200,000	438,000	438,000		

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 period the Company paid \$327,820 (inc. GST) to entities associated with a former Director Jonathan Kahn, 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 ordinary shares under options.

Auditors Independence Declaration and Non-Audit Services

There were no non-audit services provided by the entity's auditor UHY Haines Norton.

The Auditor's independence declaration for the year end 30 June 2007 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.

Dated this 25th day of September 2007.

John Read
Chairman

Trevor Morrow
Managing Director

Directors' Report

Auditors' Independence Declaration

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

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2007 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

Mark Nicholaeff

Partner

UHY Haines Norton

Chartered Accountants

Signed at Sydney on 25 September 2007.

Corporate Governance Statement

The Board of Directors of Pro-Pac Packaging Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Pro-Pac Packaging Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

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

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principle 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balanced disclosure
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

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

Due to the following factor, the Company did not comply with some of the Council's recommendations during the period:

- the Company's Board does not have a majority of independent Directors;

Any departures to the Council's best practice recommendations since the Company's listing on the ASX until the date of this report are also set out as part of the comments below.

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 Director's Report. Corporate Governance Council Recommendation 2.1 requires a majority of the Board to be independent Directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of Director Independence, "materiality" is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the

contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

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

Name	Reason for non-compliance
Trevor Morrow <i>Managing Director</i>	Mr Morrow is employed by the Company in an executive capacity.
John Read <i>Non-Executive Chairman</i>	Mr Read is a Director of CVC Limited, a substantial shareholder.
Elliott Kaplan <i>Non-Executive Director</i>	Mr Kaplan is a director of CVC Private Equity Limited, a substantial shareholder.
Hadrian Morrall <i>Executive Director</i>	Mr Morrall is employed by the Company in an executive capacity and is a substantial shareholder.
Brandon Penn <i>Non-Executive Director</i>	Mr Penn is a substantial shareholder.

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

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

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

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

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

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

Corporate Governance Statement

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
John Read	25 months
Elliott Kaplan	32 months
Trevor Morrow	14 months
Hadrian Morrall	1 month
Brandon Penn	1 month

Remuneration Committee

The Board has established a Remuneration Committee 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.

The Committee comprises Mr Read, Mr Kaplan and Mr Penn.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company.

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

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

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

Recommendation 4.3 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. The Company does not satisfy these requirements.

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.

Performance

The performance of the individual members of the Board is reviewed annually and otherwise as required in conjunction with the regular meetings of the Board by the other Directors 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 Packaging Limited.

Remuneration

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

For details on the amount of remuneration for each of the three highest paid executives during the year, and for all Directors, please refer to the Remuneration Report within the Directors' Report.

As noted above, the Board has established a Remuneration Committee.

Income Statements

For the year to 30 June 2007

	Notes	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
		\$	\$	\$	\$
Revenue from continuing operations					
Sale of goods		26,073,845	24,062,784	-	-
Interest income		126,198	102,274	58,786	32,929
Dividend income		-	-	950,000	930,000
Other income		86,449	10,748	-	-
Total Revenue		26,286,492	24,175,806	1,008,786	962,929
Expenses					
Amortisation of prepaid royalty	15	272,736	264,792	-	-
Depreciation expense		327,168	340,515	-	-
Distribution	4(a)	482,285	405,428	-	-
Employee benefits expense		4,411,685	4,209,803	131,821	131,590
Finance costs	4(b)	213,277	191,656	-	4,225
Occupancy costs		761,065	656,546	-	-
Other expenses from ordinary activities		1,344,960	1,556,165	64,605	48,234
Raw materials and consumables used		16,699,184	14,917,231	-	-
Write off of residual carrying value of IT system		-	112,964	-	-
Profit before income tax		1,774,133	1,520,706	812,360	778,880
Income tax expense	5	(548,399)	(458,674)	41,292	45,337
Profit (Loss) after tax from continuing operations		1,225,734	1,062,032	853,652	824,217
Profit (Loss) for the year attributable to shareholders		1,225,734	1,062,032	853,652	824,217
Earnings per share (cents per share)					
- Basic earnings per year	6	3.14	2.75	-	-
- Diluted earnings per year	6	3.14	2.75	-	-

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

Balance Sheets

As at 30 June 2007

	Notes	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
		\$	\$	\$	\$
Assets					
Current assets					
Cash and cash equivalents	8	1,677,490	2,198,093	-	-
Trade and other receivables	9	4,302,104	3,548,222	1,093	1,093
Inventories	10	1,964,557	1,487,134	-	-
Prepayments	15	381,563	311,568	5,206	5,206
Tax receivable		-	331,268	-	331,268
Total current assets		8,325,714	7,876,285	6,299	337,567
Non-current assets					
Investments in controlled entities at cost		-	-	16,753,784	16,182,858
Property, plant and equipment	11	1,813,360	1,289,541	-	-
Intangible assets	12	14,369,928	13,412,687	-	-
Deferred tax assets	14	358,845	478,778	139,194	246,773
Prepayments	15	2,303,247	2,575,983	-	-
Other assets	13	12,674	12,674	2,238,778	1,899,535
Total non-current assets		18,858,054	17,769,663	19,131,756	18,329,166
TOTAL ASSETS		27,183,768	25,645,948	19,138,055	18,666,733
Liabilities					
Current liabilities					
Trade and other payables	17	3,620,635	3,049,369	10,000	10,000
Interest bearing borrowings	18	289,017	164,918	-	-
Provisions	19	364,592	359,447	-	-
Current tax liabilities		90,788	-	90,788	-
Total current liabilities		4,365,032	3,573,734	100,788	10,000
Non-current liabilities					
Provisions	19	64,804	59,872	-	-
Interest bearing borrowings	18	2,790,933	2,813,259	-	-
Total non-current liabilities		2,855,737	2,873,131	-	-
TOTAL LIABILITIES		7,220,769	6,446,865	100,788	10,000
NET ASSETS		19,962,999	19,199,083	19,037,267	18,656,733
EQUITY					
Contributed equity	20	18,729,203	18,366,273	18,729,203	18,366,273
Other reserves		11,300	-	-	-
Retained earnings		1,222,496	832,810	308,064	290,460
TOTAL EQUITY		19,962,999	19,199,083	19,037,267	18,656,733

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

Cash Flow Statements

For the year to 30 June 2007

	Notes	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		25,394,352	24,643,163	-	4,806
Payments to suppliers & employees		(23,213,912)	(20,947,537)	(196,426)	(127,947)
Interest received		126,198	102,274	58,786	32,929
Interest paid		(213,277)	(191,656)	-	-
Income tax paid		(6,409)	(900,356)	-	-
Net cash flows from operating activities	8	2,086,952	2,705,888	(137,640)	(90,212)
Cash flows from investing activities					
Payments for property, plant and equipment		(628,707)	(562,687)	-	-
Proceeds from sale of property, plant and equipment		83,764	28,875	-	-
Royalty prepaid		-	(3,113,511)	-	-
Payments for unincorporated businesses net of cash acquired		(1,691,266)	(45,998)	-	-
Net cash flows used in investing activities		(2,236,209)	(3,693,321)	-	-
Cash flows from financing activities					
Payment of finance lease liabilities		(132,833)	(24,979)	-	-
Proceeds from borrowing		234,605	2,747,946	610,756	-
Proceeds from issue of shares		362,930	174,609	362,930	174,609
Dividend paid		(836,048)	(509,007)	(836,048)	(509,007)
Costs of issue of shares		-	(10,929)	-	(10,929)
Net cash flows (used in)/provided by financing activities		(371,346)	2,377,640	137,640	(345,327)
Net (decrease)/increase in cash and cash equivalents		(520,603)	1,390,207	-	(435,539)
Cash and cash equivalents at beginning of financial year		2,198,093	807,886	-	435,539
Cash and cash equivalents at end of financial year		1,677,490	2,198,093	-	-

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

Statements of Changes in Equity

For the year to 30 June 2007

	Issued capital	Retained earnings	Option reserve	Total equity
	\$	\$	\$	\$
Consolidated				
Balance as at 1 July 2005	18,191,664	-	-	18,191,664
Issue of shares for dividend re-investment plan	174,609	-	-	174,609
Profit for the year	-	1,341,817	-	1,341,817
Dividend paid	-	(509,007)	-	(509,007)
Balance as at 30 June 2006	18,366,273	832,810	-	19,199,083
Issue of shares for dividend re-investment plan	362,930	-	-	362,930
Recognition of share based payments	-	-	11,300	11,300
Profit for the year	-	1,225,734	-	1,225,734
Dividend paid	-	(836,048)	-	(836,048)
Balance as at 30 June 2007	18,729,203	1,222,496	11,300	19,962,999
Parent				
Balance as at 1 July 2005	18,191,664	-	-	18,191,664
Issue of shares for dividend re-investment plan	174,609	-	-	174,609
Profit for the year	-	799,467	-	799,467
Dividend paid	-	(509,007)	-	(509,007)
Balance as at 30 June 2006	18,366,273	290,460	-	18,656,733
Issue of shares for dividend re-investment plan	362,930	-	-	362,930
Profit for the year	-	853,652	-	853,652
Dividend paid	-	(836,048)	-	(836,048)
Balance as at 30 June 2007	18,729,203	308,064	-	19,037,267

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

Notes to the Financial Statements

For the year to 30 June 2007

Note 1: Corporate Information

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2007 was approved for issue in accordance with a resolution of the Directors on 25 September 2007. Pro-Pac Packaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

Note 2: Summary of Significant Accounting Policies

(a) Basis of preparation

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

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

(b) Statement of compliance

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

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Pro-Pac Packaging Limited and its subsidiaries as at 30 June 2007.

The financial statements of subsidiaries are prepared for the reporting year ended 30 June 2007 using accounting policies consistent with the parent entity.

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

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

(d) 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 5 to 15 years.

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

Impairment

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

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.

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(f) 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

Notes to the Financial Statements

For the year to 30 June 2007

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

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.

(g) 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.

(h) 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 labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(i) 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.

(j) Cash and cash equivalents

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

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

(k) 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.

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

(m) Share-based payment

The Group provides benefits to employees (including directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). These benefits are provided under the Executive Long Term Incentive Plan ("ESPP"), which is described in note 16.

(n) 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.

(o) 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.

(p) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

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

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is recognised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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

(q) Other taxes

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

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

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

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

Notes to the Financial Statements

For the year to 30 June 2007

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

(r) 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 their nominal amounts based on remuneration rates which are 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. Employee benefit expenses and revenues arise in respect of the following categories:

- wages and salaries, monetary and non-monetary benefits, annual leave, long service leave and other leave benefits.
- other types of employee benefits are recognised against profits on a net basis in their respective categories.

(s) 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.

(t) Foreign currency transactions and balances

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

Note 3: Segment Information

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

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 4: Expenses

(a) Distribution

Freight	482,285	405,428	-	-
Total distribution	482,285	405,428	-	-

(b) Finance costs/(income)

Finance charges payable under finance leases/bank loans	213,277	191,656	-	4,225
Total finance costs	213,277	191,656	-	4,225

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 5: Income Tax

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

Income Statement

Current income tax

Current income tax charge/(refund)	413,248	406,389	(148,870)	(163,472)
Adjustments in respect of previous years	15,218	-	-	-

Deferred income tax

Relating to temporary differences	119,933	52,285	107,578	118,135
Income tax expense/(refund) in income statement	548,399	458,674	(41,292)	(45,337)

Statement of changes in equity

Deferred income tax asset

Listing costs	-	3,278	-	3,278
Income tax benefit in equity	-	3,278	-	3,278

	Consolidated 2007	Consolidated 2006
	\$	\$

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 2007 is as follows:

Accounting profit before tax	1,774,133	1,520,706
At the statutory income tax rate of 30%	532,240	456,212
Expenditure not allowable for tax purposes	941	2,462
Adjustments in respect of previous years	15,218	-
At effective income tax rate of 30.9% (2006 : 30.2%)	548,399	458,674
Income tax expense reported in income statement	548,399	458,674

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 ending 30 June 2007 and 30 June 2006.

Notes to the Financial Statements

For the year to 30 June 2007

Note 6: Earnings Per Share

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

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

	Consolidated 2007	Consolidated 2006
	\$	\$
Net profit attributable to equity holders (\$)	1,225,734	1,062,032
Weighted average number of ordinary shares for basic earnings per share	39,097,706	38,549,619
Basic earnings per share (cents per share) *	3.14	2.75
Diluted earnings per share (cents per share) *	3.14	2.75

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

Note 7: Dividends Paid and Proposed

On 2 August 2007, the Company declared a fully franked final dividend of 1 cent per share. The record date for determining entitlement to the dividend was 14 August 2007 and the dividend will be paid on 16 October 2007. The Company's Dividend Reinvestment Plan was applied to the final dividend at a discount of 3%. When combined with PPG's interim dividend of 1 cent, paid on 11 April 2007, this brings total fully franked dividends for the 2006/07 financial year to 2 cents per share.

Franking credit balance

As indicated in note 5, the financial report has been prepared on the basis that the group has adopted the provisions of the tax consolidation regime for the years ending 30 June 2007 and 30 June 2006. As such franking credits arising from the other Group companies totalling \$3,040,243 (2006: \$2,989,928) will be available to the parent entity.

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 8: Cash and Cash Equivalents

Cash at bank and in hand	1,677,490	2,198,093	-	-
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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	1,677,490	2,198,093	-	-
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Reconciliation of cash

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

Cash at bank and in hand	1,677,490	2,198,093	-	-
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Reconciliation from the net profit after tax to the net cash flows from operations

Net profit after tax	1,225,734	1,062,032	853,652	824,217
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Add/(Less) non-cash items:

Depreciation and amortisation of plant and equipment	327,168	340,515	-	-
Amortisation of prepaid royalty	272,736	264,792	-	-

(Profit)/Loss on disposal of assets	(66,781)	111,407	-	-
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Movement in income tax provision	422,055	(493,967)	(148,871)	(163,472)
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Movement in deferred tax assets & liabilities	119,933	52,285	107,579	118,135
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Movement in provision for bad debts	(5,138)	(4,802)	-	-
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Changes in assets and liabilities:

Receivables	(696,364)	585,180	-	4,805
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Inventories	38,425	30,887	-	-
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Payables	636,181	609,576	-	(13,433)
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Provisions	(118,549)	68,026	-	-
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Prepayments	(69,995)	75,732	-	-
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Other current assets	1,547	4,225	(950,000)	(860,464)
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Net cash flows from operating activities	2,086,952	2,705,888	(137,640)	(90,212)
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Notes to the Financial Statements

For the year to 30 June 2007

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 9: Trade and Other Receivables

Current:

Trade receivables	4,322,487	3,600,783	-	-
Provision for impairment of receivables	(48,875)	(54,012)	-	-
Other debtors	28,492	1,451	1,093	1,093
Total current receivables	4,302,104	3,548,222	1,093	1,093

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

Note 10: Inventories

Raw materials (lower of cost and net realisable value)	42,609	141,868	-	-
Finished goods (lower of cost and net realisable value)	1,954,575	1,377,675	-	-
Provision for obsolescence	(32,627)	(32,409)	-	-
Total inventories at lower of cost and net realisable value	1,964,557	1,487,134	-	-

Note 11: Property, Plant and Equipment

At 30 June

Plant and equipment				
At cost	1,924,383	1,256,687	-	-
Accumulated depreciation	(443,306)	(221,006)	-	-
	1,481,077	1,035,681	-	-
Leased plant and equipment				
Capitalised leased plant and equipment	508,305	337,933	-	-
Accumulated depreciation	(176,022)	(84,073)	-	-
	332,283	253,860	-	-
Total property, plant and equipment	1,813,360	1,289,541	-	-

(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 2007	Consolidated 2007	Consolidated 2007	Parent 2007	Parent 2007	Parent 2007
	\$	\$	\$	\$	\$	\$
	Owned	Leased	Total	Owned	Leased	Total
Balance at the beginning of the year	1,035,681	253,860	1,289,541	-	-	-
Additions	697,590	170,372	867,962	-	-	-
Disposals	(29,894)	-	(29,894)	-	-	-
Depreciation charge for the year	(222,300)	(91,949)	(314,249)	-	-	-
Carrying amount at the end of the year	1,481,077	332,283	1,813,360	-	-	-

Revaluations

An independent valuation has not been obtained to determine fair value.

Assets under Finance Leases and Hire Purchase Contracts

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2007 is \$332,382 (2006: \$253,860). Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 12: Intangible Assets**Goodwill****Period ended 30 June**

Carrying amount at beginning of the year	13,412,687	13,366,689	-	-
Payment for acquisition of unincorporated businesses	957,241	45,998	-	-
At 30 June, net of accumulated amortisation	14,369,928	13,412,687	-	-

At 30 June

Gross (carrying amount)	14,369,928	13,412,687	-	-
Net carrying amount	14,369,928	13,412,687	-	-

Impairment Test for Goodwill

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

The recoverable amount of the cash generating unit is determined based on value-in-use calculations. Based on the value-in-use calculations approved by the Board, Goodwill has not been impaired (see note 25).

Note 13: Other Assets

Loans to Group Companies	-	-	1,276,104	1,886,861
Prepaid bank fees	12,674	12,674	12,674	12,674
	12,674	12,674	1,288,778	1,899,535

Notes to the Financial Statements

For the year to 30 June 2007

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 14: Deferred Tax Assets

Deferred tax assets

Deferred tax assets comprise:

Provisions and other timing differences	219,651	232,005	-	-
Transactions costs on equity issue	139,194	246,773	139,194	246,773
	358,845	478,778	139,194	246,773

Reconciliation of gross movements

The overall movement in the deferred tax account is as follows:

Opening balance	478,778	527,785	246,773	361,629
Charge to income statement	(119,933)	(52,285)	(107,579)	(118,134)
Charge to equity	-	3,278	-	3,278
Closing balance	358,845	478,778	139,194	246,773

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	232,005	166,156	-	-
Credited to income statement	(12,354)	65,849	-	-
At 30 June	219,651	232,005	-	-
Transaction cost to equity issue at 1 July	246,773	361,629	246,773	361,629
(Charge)/credit to income statement	(107,579)	(118,134)	(107,579)	(118,134)
Credited directly to equity	-	3,278	-	3,278
At 30 June	139,194	246,773	139,194	246,773

Note 15: Prepayments

Prepayment of royalty

Included in prepayments is royalty prepaid. In July 2005, the Company made a payment of \$3.1 million (including withholding tax) to UK based Greenlight Packaging Limited, the licensor for the Company's exclusive licence to manufacture and distribute biodegradable flowable void fill products. The payment relates to the change of control provisions contained in the licence agreement between parties which was triggered as a result of the Company's IPO in April 2005. Under the licence agreement, in the event of a change of control of the licensee, the licensor had the right to be paid a royalty in advance for the remaining period of the licence. The prepayment was calculated based on the average of the previous 2 years' royalties multiplied by the number of years remaining until expiry of the licence, discounted to present value by the 30 day bank bill rate. The prepayment of the royalties is amortised over the remaining period of the licence. The prepaid royalty amortised for the year ended 30 June 2007 amounted to \$272,736 (2006: \$264,792.)

Portion included under non-current assets - prepayments	\$2,303,247
Portion included under current assets - prepayments	\$272,736
Total prepayment of royalty (net of amortisation)	\$2,575,983

Note 16: Employee Benefits

Executive Long Term Incentive Plan

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

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

- No Shares under the ESPP will be allotted unless the requirements of the Corporations Act 2001 and the ASX Listing Rules have been complied with.
- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, Participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of the ESPP is 3 years.
- The Shares will be registered in the names of the Participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares would be surrendered in full settlement of the outstanding loan balance.
- During the year, 1,200,000 shares were issued to staff and executives under the ESPP, while 260,000 shares were cancelled due to termination of service of staff. At the end of the year 1,750,000 shares were in issue under the ESPP. (In addition, there were 1,824,311 shares pending cancellation that were issued to former employees.)

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

- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions:

Expected volatility (%)	40
Risk-free interest rate (%)	6.0
Expected life of option (years)	3
Share price (\$)	0.365
Dividend yield (%)	5.5
Probability of achievement (%)	30

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

Notes to the Financial Statements

For the year to 30 June 2007

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 17: Trade and Other Payables

Trade payables	3,233,162	2,358,560	10,000	10,000
Royalties payable	9,321	46,494	-	-
GST payable	151,153	168,737	-	-
Other tax payable	107,660	152,669	-	-
Sundry creditors and accruals	119,339	322,909	-	-
	3,620,635	3,049,369	10,000	10,000

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

Note 18: Interest Bearing Loans and Borrowings

Current

Obligations under finance lease and hire purchase (see note 24)	195,450	66,666	-	-
Obligations under bank loan (secured)	93,567	98,252	-	-
	289,017	164,918	-	-

Non-current

Obligations under finance lease and hire purchase (see note 24)	190,933	226,269	-	-
Obligations under bank loan (secured)	2,600,000	2,586,990	-	-
	2,790,933	2,813,259	-	-

The obligations under the bank loan are secured as follows:

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

The Company's obligations under the bank loan are subject to the following covenants:

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

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available

Total facilities:				
- bank loans	5,000,000	5,000,000	-	-
Facilities used at reporting date:				
- bank loans	2,600,000	2,600,000	-	-
Facilities unused at reporting date:				
- bank loans	2,400,000	2,400,000	-	-

Note 19: Provisions**Current**

Employee entitlements

Opening balance	359,447	314,460	-	-
Additional provisions	45,839	44,987	-	-
Amount used	(40,694)	-	-	-
Closing balance	364,592	359,447	-	-

Non-current

Employee entitlements

Opening balance	59,872	36,813	-	-
Additional provisions	4,932	23,059	-	-
Amount used	-	-	-	-
Closing balance	64,804	59,872	-	-

Notes to the Financial Statements

For the year to 30 June 2007

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Note 20: Contributed Equity

Ordinary shares

Issued and fully paid	18,729,203	18,366,273	18,729,203	18,366,273
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<i>Movement in ordinary shares on issue</i>	Number	\$	Share Restrictions	Date Released
Balance at 1 July 2005	39,840,546	18,199,315		
Issue of shares for Executive Long Term Incentive Plan	980,000	-	escrow	July 2008
Cancellation of shares for Executive Long Term Incentive Plan	(100,000)	-		
Costs of raising shares in initial public offering	-	(10,929)		
Future income tax benefit associated with costs of raising shares in initial public offering	-	3,278		
Issue of shares for dividend re-investment plan	491,754	174,609		
Balance at 1 July 2006	41,212,300	18,366,273		
Issue of shares for Executive Long Term Incentive Plan	1,200,000	-	escrow	Jan 2010
Cancellation of shares for Executive Long Term Incentive Plan	(260,000)	-		
Issues of shares for dividend re-investment plan	1,103,137	362,930		
Balance at 30 June 2007	43,255,437	18,729,203		

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).

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 5%.

Foreign currency risk

The Group has transactional currency exposures. Such exposure arises from purchases by the operating unit in currencies other than the unit's measurement currency which accounted for 4.30% of purchases of materials and capital items. Forward contracts are not used to manage foreign currency risk.

Commodity price risk

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

Credit risk

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

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

Liquidity risk

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

Note 22: Financial Instruments**Fair values**

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

Interest rate risk

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

	Floating interest rate 2007 \$	Fixed interest rate 2007 \$	Non-interest bearing 2007 \$	Total carrying amount per the balance sheet 2007 \$	Weighted average interest rate 2007 %
CONSOLIDATED					
(i) Financial assets					
Cash Assets	1,675,504	-	1,986	1,677,490	5.50
Receivables	-	-	4,299,503	4,299,503	
Total financial assets	1,675,504	-	4,301,489	5,976,993	
(ii) Financial liabilities					
Finance Leases (current)	-	195,450	-	195,450	8.20
Finance Leases (non-current)	-	190,933	-	190,933	8.20
Bank loans (current)	93,567	-	-	93,567	7.46
Bank loans (non-current)	2,600,000	-	-	2,600,000	7.46
Payables (current)	-	-	3,620,635	3,620,635	
Total financial liabilities	2,693,567	386,383	3,620,635	6,700,585	
Net financial assets/(liabilities)	(1,018,063)	(386,383)	680,854	(723,592)	
PARENT					
(i) Financial assets					
Cash Assets	-	-	-	-	
Intercompany receivables	-	-	1,276,104	1,276,104	
Total financial assets	-	-	1,276,104	1,276,104	
(ii) Financial liabilities					
Finance Leases (current)	-	-	-	-	
Finance Leases (non-current)	-	-	-	-	
Payables (current)	-	-	10,000	10,000	
Total financial liabilities	-	-	10,000	10,000	
Net financial assets (liabilities)	-	-	1,266,104	1,266,104	

Notes to the Financial Statements

For the year to 30 June 2007

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount per the balance sheet	Weighted average interest rate
	2006	2006	2006	2006	2006
	\$	\$	\$	\$	%

Note 22: Financial Instruments (cont.)

CONSOLIDATED

(i) Financial assets

Cash Assets	2,196,642	-	1,451	2,198,093	5.00
Receivables	-	-	3,548,222	3,548,222	
Total financial assets	2,196,642	-	3,549,673	5,746,315	

(ii) Financial liabilities

Finance Leases (current)	-	66,666	-	66,666	7.32
Finance Leases (non-current)	-	226,269	-	226,269	7.32
Bank loans (current)	98,252	-	-	98,252	6.56
Bank loans (non-current)	2,586,990	-	-	2,586,990	6.56
Payables (current)	-	-	3,049,369	3,049,369	
Total financial liabilities	2,685,242	292,935	3,049,369	6,027,546	

Net financial assets/(liabilities)	(488,600)	(292,935)	500,304	(281,231)	
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PARENT

(i) Financial assets

Cash Assets	-	-	-	-	
Receivables (current)	-	-	169,771	169,771	
Intercompany receivables	-	-	1,886,861	1,886,861	
Total financial assets	-	-	2,056,632	2,056,632	

(ii) Financial liabilities

Finance Leases (current)	-	-	-	-	
Finance Leases (non-current)	-	-	-	-	
Payables (current)	-	-	10,000	10,000	
Total financial liabilities	-	-	10,000	10,000	

Net financial assets (liabilities)	-	-	2,046,632	2,046,632	
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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 2007	< 1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	> 5 years	Total
CONSOLIDATED							
Cash assets	1,675,504						1,675,504
Finance leases	195,450	40,988	60,660	66,841	22,444	-	386,383
Bank loans	93,567	1,935,000	335,000	330,000	-	-	2,693,567
PARENT							
Cash assets	-	-	-	-	-	-	-

Year ended 30 June 2006	< 1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	> 5 years	Total
CONSOLIDATED							
Cash assets	2,196,642	-	-	-	-	-	2,196,642
Finance leases	66,666	171,472	18,321	36,476	-	-	292,935
Bank loans	98,252	192,426	1,707,184	687,380	-	-	2,685,242
PARENT							
Cash assets	-	-	-	-	-	-	-

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

Note 23: Subsidiaries

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 Limited	Australia	Ordinary	100%
Controlled Entities owned 100% by Pro-Pac Group Limited			
Pro-Pac Packaging (Aust) Pty Ltd	Australia	Ordinary	100%
Pro-Pac Manufacturing (GLP) 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%

Notes to the Financial Statements

For the year to 30 June 2007

Note 24: Commitments and Contingencies

Operating lease commitments – Group as lessee

The Group has entered into commercial leases which are non cancellable and have a remaining life of 22 months in Sydney, 7 months in Melbourne and 2 months in Brisbane. 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 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$
Within one year	347,017	308,700	-	-
After one year but not more than five years	229,325	15,000	-	-
More than five years	-	-	-	-
	576,342	323,700	-	-

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 expiring between 2.5 and 3 years.

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:

Consolidated	2007 Minimum payments	2007 Present value of payments	2006 Minimum payments	2006 Present value of payments
	\$	\$	\$	\$
Within one year	216,187	195,450	86,044	66,666
After one year but not more than five years	215,173	190,933	241,806	226,269
Total minimum lease payments	431,360	386,383	327,850	292,935
Less amounts representing finance charges	(44,977)	-	(34,915)	-
Present value of minimum lease payments	386,383	386,383	292,935	292,935

	2007	2006
	\$	\$
Representing lease liabilities		
Current	195,450	66,666
Non-current	190,933	226,269
	386,383	292,935

The weighted average interest rate implicit in the leases is 8.20%.

Note 25: Impairment Testing of Indefinite Lived Goodwill

Carrying amount of goodwill

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$
Carrying amount of goodwill	14,369,928	13,412,687	-	-

The Group and all of its subsidiaries are treated as a single cash generating unit as this is the smallest group of identifiable assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill acquired through business combinations has been allocated to the cash-generating-unit for impairment testing.

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

Key assumptions used in value in use calculation for 30 June 2007

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

The discount rate applied to cash flow projections is 13.13% and cash flows beyond the 12 month period are extrapolated using a zero growth rate for the sake of conservatism. This is despite expectations that the Group will continue to expand its business. On this basis there has been no impairment of Goodwill during the year.

Note 26: Related Party Disclosure

Parent Entity

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

Subsidiaries

Interests in subsidiaries are set out in note 23.

Transactions with Directors

The Company or members of the Group have entered into the following agreements with the former Managing Director and non Executive Director, Mr Jonathan Kahn, or entities related to Mr Kahn.

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$
<i>i. Salaries and wages</i>	31,500	213,833	-	-
<i>ii. Rental expense</i>	325,481	327,820	-	-
Payments to Rygrow Pty Ltd for rental related to the Marrickville, Sydney property (inc GST)				
Total payments	356,981	541,653	-	-
<i>iii. ESPP shares and loan</i>				
ESPP shares issues	NIL	1,199,565	-	-
ESPP receivable	NIL	(1,199,565)	-	-

Notes to the Financial Statements

For the year to 30 June 2007

Note 27: Events after the Balance Sheet Date

Acquisition of business

On 14 August 2007, Pro-Pac Packaging shareholders approved the acquisition of Plastic Bottles Pty Limited for approximately \$21.2 million, to be satisfied by way of \$10,197,000 in cash and the issue of 29,738,000 new fully paid PPG shares to the vendors. A further possible amount of \$ 2 million will be paid in cash, if certain earnings targets are met.

Subsequent to balance date, the Company issued 29,738,000 shares to the vendors of the Plastic Bottles Group. The Company also raised an additional \$17,200,000 through the issue of 46,486,486 shares under a share purchase plan and a share placement approved by the Shareholders. 1,824,311 ESPP shares issued to former employees were cancelled subsequent to balance date.

Note 28: Auditors' Remuneration

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
	\$	\$	\$	\$

Amounts received or due and receivable by UHY Haines Norton for an audit or review of the financial report of the entity and any other entity in the consolidated entity.

41,200	40,000	-	-
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Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 13 to 36 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 5 to 8 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The directors have been given the declarations by the Chief Financial Officer and Chief Executive Officer required by section 295A of the Corporations Act 2001.

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

On behalf of the Board this 25th day of September 2007.

John Read
Chairman

Trevor Morrow
Managing Director

Independent Audit Report

To the members of Pro-Pac Packaging Limited

Report on the Financial Report

We have audited the accompanying financial report of Pro-Pac Packaging Limited (the company) and Pro-Pac Packaging Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flows statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 5 to 8 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.

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

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

In our opinion:

- (a) the financial report of Pro-Pac Packaging Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- (c) the remuneration disclosures that are contained in pages 5 to 8 of the directors' report comply with Accounting Standard AASB 124.

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Signed at Sydney on 26 September 2007.

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 24 September 2007.

(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	40	4,809	0.004
1,001-5,000	153	529,825	0.450
5,001-10,000	146	1,212,716	1.031
10,001-100,000	453	14,128,093	12.008
100,001 and over	54	101,780,167	86.507
Totals	846	117,655,610	100.00

There are thirty six holders of unmarketable parcels totalling 3,006 shares representing 0.002% 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	Bennamon Pty Ltd	22,400,000	19.039
2	CVC Limited	22,218,316	18.884
3	Mr Brandon Penn	17,842,800	15.165
4	Mr Hadrian Morrall	11,895,200	10.110
5	CVC Private Equity Limited	7,066,284	6.006
6	Nightingale Partners Pty Ltd	3,661,182	3.112
7	Derrin Brothers Properties Ltd	2,700,101	2.295
8	CVC Sustainable Investments Limited	1,796,839	1.527
9	Mr Trevor Morrow	1,000,000	0.850
10	L J K Nominees Pty Ltd (Pension Fund A/C)	1,000,000	0.850
11	Mrs Natalie Penn	934,898	0.795
12	Posere Pty Ltd	893,972	0.760
13	IP 10 Partners Pty Ltd	849,629	0.722
14	Mr Elliott Kaplan & Mrs Brenda Kaplan (Kaplan Family S/F A/C)	511,755	0.435
15	G Santalucia Investment Pty Ltd (Santalucia Investment A/C)	420,000	0.357
16	M J H Nightingale & Co Pty Ltd	369,075	0.357
17	Keiser Shipping & Transport Pty Ltd	313,500	0.314
18	Dixson Trust Pty Ltd	313,500	0.266
19	Rogand Pty Ltd (Rogand Unit A/C)	313,500	0.266
20	Cannington Corporation Pty Limited (Cannington S/F J Read A/C)	308,940	0.266
	Top 20	96,809,491	82.282
	Total	117,655,610	

Additional Company Information

(c) Substantial shareholders

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

CVC Limited	22,218,316 ordinary shares
Benammon Pty Limited	22,400,000 ordinary shares
Mr Brandon Penn	17,842,800 ordinary shares
Mr Hadrian Morrall	11,895,200 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 31,488,000. Shares are restricted in four categories:

ESPP Shares under escrow until 22 July 2008	550,000 ESPP shares
ESPP Shares under escrow until 18 January 2010	1,200,000 ESPP shares
Shares under escrow until 16 August 2008	14,869,000 ordinary shares held by Messrs Penn and Morrall
Shares under escrow until 16 August 2009	14,869,000 ordinary shares held by Messrs Penn and Morrall

(f) Business objectives

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



PRO-PAC Packaging Limited

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