Annual Report 2006

PRO-PAC

Packaging Limited

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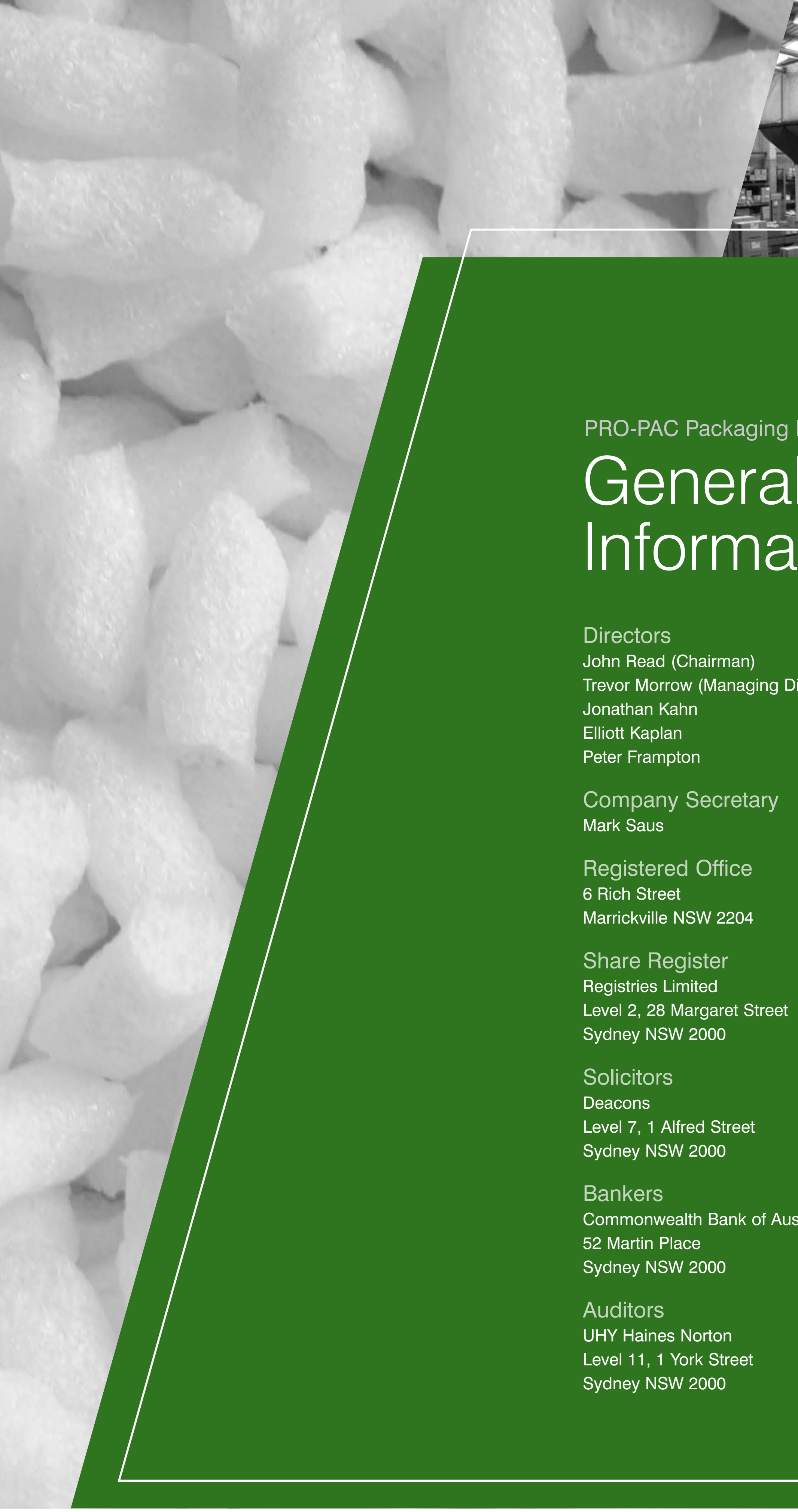
ACN 112 971 874



PRO-PAC Packaging Limited

General Information

Directors
John Read (Chairman)
Trevor Morrow (Managing Director)
Jonathan Kahn
Elliott Kaplan
Peter Frampton

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
Deacons
Level 7, 1 Alfred Street
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 pleased to present this report for the 12 months ended 30 June 2006. This report covers the Company's first full year of operation as a listed public company.

Whilst Pro-Pac has and continues to make significant progress, profitability for the period failed to meet expectations. Revenue grew by over 12 percent from the prior period's normalised (12 month) result to $24.1 million. This revenue growth is consistent with the Company's strategic objectives and has been achieved by a mixture of organic and acquisitive growth.Net profit before tax of $1.52 million for the period ended 30 June 2006 fell short of forecasts primarily due to additional costs incurred in implementing the Company's new CRM and IT accounting system and consequential additional overhead costs incurred in administration, logistics and procurement caused by deficiencies in the new system. Following the decision to migrate to a new IT system during the 2006/07 financial year, the residual carrying value of the existing IT system of $112,964 has been written off as at 30 June 2006.

At this stage of the Company's development it is arguable that a more reliable indicator of Pro-Pac's performance during the year under review was the positive cash flow realised from operations of $2.7 million.

The year under review also witnessed significant changes to key members of the executive team. In March 2006, Pro-Pac announced the appointment of Mr. Trevor Morrow as Chief Executive Officer arising from the decision of Pro-Pac's founder and Managing Director Mr. Jonathan Kahn to retire as an executive of the Company. Jonathan's vision and determination was pivotal to the historic growth and success of Pro-Pac. Trevor brings outstanding skills and experience that are highly relevant to Pro-Pac and its charter. Trevor has already proven himself a valuable asset to the Company leading significant improvements in the areas of strategic and operational management, growth and profit improvement. Moreover, the Directors recognise and acknowledge that many of the achievements of 2005/06 would not have been possible without the commitment and determination of Pro-Pac's entire management team and staff in the face of significant difficulties and frustrations encountered during the implementation of the Company's new IT system.

Also at this time I must pay tribute to Mr. Peter Frampton who has announced his decision to retire from the Board at the forthcoming Annual General Meeting. As one of the Company's original non executive directors charged with guiding the Company through its initial public offering phase, Peter has facilitated a valuable governance role on the Board.

On 30 August 2006, the Company declared a final fully franked dividend of 1 cent per share to be paid on 16 October 2006. This brought total fully franked dividends for the year to 2.25 cents.

Pro-Pac has commenced the new financial year focused on the twin objectives of profit improvement and its strategic acquisition program. Management has embarked on a structured profit improvement program whose elements include enhanced sales management, improved procurement, streamlined logistics and overhead cost reductions. With respect to acquisitions, the Company announced on 4 September 2006 that, in conformity with its roll up strategy in the Australian general packaging market, it had acquired the business and assets of the complementary Melbourne based niche general packaging distributor, Gaine Packaging. Pro-Pac continues to evaluate a number of potential acquisition targets however in so doing it is not prepared to compromise its strict value driven acquisition criteria in pursuit of arbitrary growth targets.

On behalf of the Board I take this opportunity to again extend our appreciation to you for your continued support and encouragement during this formative phase of Pro-Pac's development.

John D Read

Chairman

18 September 2006

Directors' Report

The Directors present their report together with the financial report of Pro-Pac Packaging Limited and its wholly owned subsidiaries ("the Group") for the year ended 30 June 2006. As Pro-Pac Packaging Limited ("the Company") was incorporated on 16 February 2005, the comparative figures for the prior period cover the period from 16 February to 30 June 2005. Similarly as the Company only acquired the business carried on by the wholly owned subsidiaries of Pro-Pac Group Limited ("the Pro-Pac business") with effect from 28 April 2005, the comparative figures for the prior period only include trading operations for the period 28 April to 30 June 2005.

In order to provide shareholders with additional useful information about the performance of the underlying trading business for the full year to 30 June 2005, the Company has included an un-audited Pro-Forma Summary Income Statement for the Group, with comparative information for the prior year, as an attachment to this report.

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 three years, Mr Read has had and continues to hold the following directorships of ASX listed companies; Chairman of The Environmental Group Limited (ASX Code: EGL) 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.

Jonathan Kahn
B.Com
(Non-Executive Director – appointed 16 February 2005)

Mr Kahn has 25 years experience in the packaging industry. He was a director and part owner of an extrusion packaging company in South Africa for five years before immigrating to Australia in 1985. In 1987 he formed the Pro-Pac business. He has extensive experience and expertise in the manufacture and sale of protective packaging and in the marketing and sale of general industrial packaging. He also pioneered the introduction of biodegradable flowable void fill into Australia. Mr Kahn brings extensive management, production, distribution and sales experience to Pro-Pac. Mr Kahn retired as Managing Director on 17 April 2006 and assumed a non-executive director role.

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 a member of the Audit Committee and the Remuneration Committee.

Peter Frampton
MA(Oxon), MAICD
(Non-Executive Director – appointed 21 March 2005)

Mr Frampton has extensive experience at a senior level in both private and public companies in the UK, the Pacific region and, for the last 20 years, in Australia. He was a Group General Manager with Qantas Airways for 10 years until 2004. He has worked in many industries including manufacturing, construction, distribution and services. He has served on many boards as a non-executive director and/or Chairman including Australian Air Express and Air Pacific. He is currently a director of Capital Trust and Monash University Science Centre.

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

Christopher Deane
BCom, CA, MAICD
(Chairman and Non-Executive Director – appointed 11 March 2005, resigned on 23 August 2005)

Directors' Report

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.

Andrew Mooney
BBus, MBus (Ap Fin), CPA
(Appointed Chief Financial Officer and Company Secretary – 11 March 2005, resigned 2 September 2005)

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	Shares under Escrow
John Read	181,408	11,247,249	-	-
Trevor Morrow	250,000	-	-	-
Jonathan Kahn	3,086,381	-	1,754,311	1,754,311
Elliott Kaplan	1,361,464	3,728,647	-	-
Peter Frampton	50,000	-	-	-

Meetings of Directors

During the financial year, (10) meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

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

Principal Activities

Pro-Pac Packaging Limited is a company limited by shares that is incorporated and domiciled in Australia. The principal activities of the consolidated entity during the year were the manufacture and distribution of biodegradable flowable void fill packaging and the distribution of general industrial packaging products. There were no significant changes to the nature of the activities during the year.

Employees

As at 30 June 2006, excluding the Directors, the consolidated entity employed 59 employees.

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. Included in its protective packaging range are GREEN-PAK and ENVIROFILL, the only 100% biodegradable flowable void fill packaging products manufactured and supplied in Australia. These products are held under a long term exclusive manufacture and supply licence. Complementing its core range of biodegradable packaging, Pro-Pac distributes a comprehensive range of general industrial packaging and safety products.

Pro-Pac maintains a national presence, supplying the packaging and safety needs of both national and multinational customers from its manufacturing and distribution facilities in Sydney, Melbourne and Brisbane.

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

Revenue for the year of $24.1 million represented an increase of over 12% from the previous corresponding year's normalised (12 month) result and by over 30% from the revenues achieved in the year ended 30 June 2004. Revenue growth reflected organic and acquisitive growth from acquisitions made prior to commencement of the 2005/06 financial year.

The Group realised a profit before tax (PBT) of $1.52 million for the year ended 30 June 2006. Earnings for the period were adversely impacted by additional costs incurred in implementing the Company's new CRM and IT accounting system and consequential additional overhead costs incurred in administration, logistics and procurement caused by deficiencies in the new system. Following a decision to migrate to a new IT system during the 2007 financial year, the residual carrying value of the existing IT system of $112,964 has been written off as at 30 June 2006.

Notwithstanding the adverse impact on PBT, net cash flows from operations improved to $2.71 million. Overall cash improved by $1.39 million for the year to $2.20 million as at 30 June 2006.

Income tax expense of $0.46 million was incurred during the period resulting in a net after tax profit of $1.06 million being declared by the Group for the financial year ended 30 June 2006.

Dividends Paid or Recommended

On 30 August 2006, the Company declared a fully franked final dividend of 1 cent per share. The record date for determining entitlement to the dividend is 29 September 2006 and the dividend will be paid on 16 October 2006. This brought total fully franked dividends for the year to 2.25 cents per share. As with the interim dividend, the Company's Dividend Reinvestment Plan will apply to this dividend. A discount of 3% to the volume weighted average sale price per share during the four trading days up to and including the Record Date for determining entitlements will apply to shareholders who elect to participate in the Company's Dividend Reinvestment Plan.

Outlook

Under the direction of the Company's new Managing Director, Mr Trevor Morrow, who assumed responsibility for PPG in April 2006, management has embarked on a profit improvement program with an emphasis on enhanced sales management, improved procurement, streamlined logistics, and overhead cost savings. The Company has also devoted considerable energy and resources to identifying and evaluating suitable acquisition targets in conformity with its announced acquisitive growth strategy. When combined with anticipated continuing revenue growth, the Company is forecasting improved revenues and profitability in the 2006/07 financial year.

Capital Structure

At 1 July 2005, the Company had 39,840,546 ordinary shares on issue. On 22 July 2005 an additional 980,000 shares were issued under the Company's ESPP of which 100,000 were subsequently cancelled due to termination of service of an employee. During the year 491,754 shares were issued under the Dividend Re-investment Plan. As at the date of this report, the Company had 41,212,300 ordinary shares on 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 1 September 2006, the Group acquired the business and assets of the complementary Melbourne based niche general packaging distributor, Gaine Packaging. This business will be integrated with the Group's existing Melbourne operation.

Directors' Report

Likely Developments

The Company proposes to continue with the development of new environmentally friendly protective packaging products, acquisition and integration of synergistic general industrial packaging distribution businesses, the implementation of a new fully integrated CRM and accounting system and development of its profit improvement program.

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 Peter Frampton, each of whom is a Non-Executive Director.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. It is intended that the manner 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 2006 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 2006 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 on 18 April 2006 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

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. In March 2005, the Company issued 1,754,311 shares to the then Managing Director under the plan. In July 2005, a further 980,000 shares were issued to staff and executives. 100,000 were later cancelled due to termination of service of a staff member.

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).
- Except for the shares issued to the former Managing Director, 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

(i) Directors

John Read	Chairman (non-executive) (appointed 23 August 2005)
Christopher Deane	Chairman (non-executive) (appointed 11 March 2005, resigned 23 August 2005)
Jonathan Kahn	Director (non-executive) (appointed 16 February 2005. Retired as Managing Director on 18 April 2006.)
Elliot Kaplan	Director (non-executive) (appointed 16 February 2005)
Peter Frampton	Director (non-executive) (appointed 21 March 2005)

No other Director in office during the period received any form of remuneration.

Directors' Report

(ii) Specified Executives

Trevor Morrow	Managing Director (appointed 10 July 2006. Appointed CEO on 18 April 2006)
Mark Saus	Chief Financial Officer, appointed 2 September 2005
Colin Allen	State Manager - Victoria
Ken Dargan	Sales Manager - NSW

Remuneration of Key Management Personnel

Excluding the Managing Director, there are only three staff members of the Company who qualify as a "Key Management Personnel" for the purposes of this report. The Specified Executives are also the three 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
		$	$	$	$	$	$	
Directors								
John Read	2006	42,945	-	3,865	-	-	46,810	-
	2005	-	-	-	-	-	-	-
Christopher Deane	2006	9,780	-	-	-	-	9,780	-
	2005	9,083	-	-	-	-	9,083	-
Jonathan Kahn	2006	200,523	-	13,310	-	-	213,833	5.5%
	2005	32,708	-	4,200	-	-	36,908	5.5%
Elliott Kaplan	2006	36,000	-	-	-	-	36,000	-
	2005	6,000	-	-	-	-	6,000	-
Peter Frampton	2006	36,000	-	-	-	-	36,000	-
	2005	6,000	-	-	-	-	6,000	-
Total Remuneration:								
Directors	**2006**	**325,248**	**-**	**17,175**	**-**	**-**	**342,423**	**-**
	2005	53,791	-	4,200	-	-	57,991	-
Specified Executives								
Trevor Morrow	2006	47,354	-	5,500	-	-	52,854	-
	2005	-	-	-	-	-	-	-
Mark Saus	2006	123,341	-	9,992	-	-	133,333	-
	2005	-	-	-	-	-	-	-
Colin Allen	2006	128,602	-	9,472	-	-	138,074	7.8%
	2005	16,836	-	1,608	-	-	18,444	2.0%
Ken Dargan	2006	126,410	-	9,170	-	-	135,580	6.1%
	2005	17,115	-	1,243	-	-	18,358	6.5%
Total Remuneration:								
Specified Executives	**2006**	**425,707**	**-**	**34,134**	**-**	**-**	**459,841**	**-**
	2005	33,951	-	2,851	-	-	36,802	-

Remuneration of Directors and Specified Executives for 2005 relates to the trading period 28 April 2005 (date of acquisition of Pro-Pac Group Limited) to 30 June 2005.

Commissions are paid for the achievement of sales targets set by the Managing Director.

Options issued as part of remuneration for the period ended 30 June 2006

No options were granted as remuneration during the period ended 30 June 2006.

Shares and Loans issued under the ESPP during the year ended 30 June 2006

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

2006	ESPP Shares (number)	ESPP Shares $	ESPP Loans Outstanding $	ESPP Issue Price $	ESPP Expiry Date
Directors					
Jonathan Kahn	1,754,311	775,405	775,405	0.442	11 March 2008
Specified Executives					
Colin Allen	100,000	48,200	48,200	0.482	22 July 2008
Ken Dargan	100,000	48,200	48,200	0.482	22 July 2008
Total	**1,954,311**	**871,805**	**871,805**		

There were no movements in the shares held by above Directors and Executives during the year.

Key Management Personnel Shareholdings

	Balance 1 July 2005	Received through ESPP	Net Change Other *	Balance 30 June 2006
Directors				
John Read	40,000	-	121,408	161,408
Christopher Deane	200,000	-	(200,000)	-
Jonathan Kahn	4,790,692	-	50,000	4,840,692
Elliott Kaplan	1,361,464	-	-	1,361,464
Peter Frampton	50,000	-	-	50,000
Specified Executives				
Trevor Morrow	-	-	250,000	250,000
Colin Allen	-	100,000	-	100,000
Ken Dargan	-	100,000	-	100,000
Total	**6,442,156**	**200,000**	**221,408**	**6,863,564**

* Net change other refers to shares purchased or sold during the financial year.

Option holdings of Directors and Executives

There have been no options held by the Directors or Executives during the year.

Loans to Directors and Executives

Other than loans issued in relation to the Company's ESPP shares detailed above, there were no loans to Directors or Executives during the year.

Other transactions with Directors and Executives

During the period the Company paid $327,820 (inc. GST) to entities associated with 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.

Directors' Report

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 2006 has been received and can be found on page 11 of the Directors' report.

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

Dated this 28th day of September 2006.

John Read
Chairman

Trevor Morrow
Managing Director

Audit Independence Declaration

Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001
To the Directors of Pro-Pac Packaging Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 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 29 September 2006

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 considered to be independent at the date of this report:

Name	Position
Peter Frampton	Non-Executive Director

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	Position	Reason for non-compliance
Trevor Morrow	Managing Director	Mr Morrow is employed by the Company in an executive capacity.
Jonathan Kahn	Non-Executive Director	Mr Kahn is a substantial Director shareholder and was until 18 April 2006 employed by the Company in an executive capacity.
John Read	Non-Executive Chairman	Mr Read is director of CVC Chairman Limited, a substantial shareholder.
Elliott Kaplan	Non-Executive Director	Mr Kaplan is a director of Director CVC Private Equity Limited, 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.

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	13 months
Jonathan Kahn	20 months
Elliott Kaplan	20 months
Peter Frampton	18 months

Corporate Governance Statement

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 Frampton.

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 Frampton (Chairman), Mr Kaplan and Mr Read. 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 also 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, due to having only one independent member.

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 (non-director) 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 2006 (with comparative for the period 28 April to 30 June 2005)

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Continuing operations					
Revenue from continuing operations					
Sale of goods		24,062,784	3,921,183	-	-
Interest income		102,274	17,446	32,929	10,737
Dividend income		-	-	930,000	-
Other income		10,748	-	-	-
Total Revenue		24,175,806	3,938,629	962,929	10,737
Expenses					
Amortisation of prepaid royalty	16	264,792	-	-	-
Raw materials and consumables used		14,917,231	2,437,216	-	-
Depreciation and amortisation expense		340,515	19,086	-	-
Distribution & royalty expense	4(c)	694,986	163,634	-	-
Employee benefits expense		4,209,803	588,437	131,590	20,441
Finance costs	4(b)	191,656	1,779	4,225	-
Occupancy costs		519,270	115,045	-	-
Other expenses from ordinary activities	4(a)	1,403,883	203,307	48,234	15,046
Write off of residual carrying value of IT system		112,964	-	-	-
Profit before income tax		1,520,706	410,125	778,880	(24,750)
Income tax expense	5	(458,674)	(130,340)	45,337	-
Profit after tax from continuing operations		1,062,032	279,785	824,217	(24,750)
Profit for the period attributable to shareholders		1,062,032	279,785	824,217	(24,750)
Earnings per share (cents per share)					
- basic and diluted for profit for the year	6	2.60	1.44	-	-
- basic and diluted for profit from continuing operations	6	2.60	1.44	-	-

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

Balance Sheets

As at 30 June 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Assets					
Current assets					
Cash and cash equivalents	8	2,198,093	807,886	-	435,539
Trade and other receivables	9	3,548,222	4,128,601	1,093	5,899
Inventories	10	1,487,134	1,550,430	-	-
Prepayments	16	311,568	114,563	5,206	5,206
Tax receivable		331,268	-	331,268	-
Total current assets		7,876,285	6,601,480	337,567	446,644
Non-current assets					
Investments in controlled entities at cost		-	-	16,182,858	16,350,654
Receivables	14	1,199,565	775,405	1,199,565	775,405
Property, plant and equipment	11	1,289,541	1,207,652	-	-
Intangible assets	12	13,412,687	13,366,689	-	-
Deferred tax assets	15	478,778	527,785	246,773	361,629
Prepayments	16	2,575,983	-	-	-
Other assets	13	12,674	16,819	1,899,535	1,039,071
Total non-current assets		18,969,228	15,894,350	19,528,731	18,526,759
TOTAL ASSETS		26,845,513	22,495,830	19,866,298	18,973,403
Liabilities					
Current liabilities					
Trade and other payables	18	3,049,369	2,472,123	10,000	23,433
Interest bearing borrowings	19	164,918	47,244	-	-
Provisions	20	359,447	314,480	-	-
Current tax liabilities		-	162,699	-	-
Total current liabilities		3,573,734	2,996,546	10,000	23,433
Non-current liabilities					
Provisions	20	59,872	36,813	-	-
Interest bearing borrowings	19	2,813,259	207,966	-	-
Total non-current liabilities		2,873,131	244,779	-	-
TOTAL LIABILITIES		6,446,865	3,241,325	10,000	23,433
NET ASSETS		20,398,648	19,254,505	19,856,298	18,949,970
EQUITY					
Contributed equity	21	19,565,838	18,974,720	19,565,838	18,974,720
Retained earnings		832,810	279,785	290,460	(24,750)
TOTAL EQUITY		20,398,648	19,254,505	19,856,298	18,949,970

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

Cash Flow Statements

For the year to 30 June 2006 (comparative for the period 28 April to 30 June 2005)

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash flows from operating activities					
Receipts from customers		24,643,163	3,676,473	4,806	(5,899)
Payments to suppliers & employees		(20,947,537)	(3,840,080)	(127,947)	(64,277)
Interest received		102,274	17,446	32,929	10,737
Interest paid		(191,656)	(1,779)	-	-
Income tax paid		(900,356)	-	-	-
Net cash flows from/(used in) operating activities	8	2,705,888	(147,940)	(90,212)	(59,439)
Cash flows from investing activities					
Payments for property, plant and equipment		(562,687)	(26,773)	-	-
Proceeds from sale of property, plant and equipment		28,875	20,862	-	-
Royalty prepaid		(3,113,511)	-	-	-
Payments for controlled entity net of cash acquired		-	(8,752,235)	-	(9,259,700)
Balance of payments for unincorporated business net of cash acquired		(45,998)	(1,004,127)	-	-
Loans to group companies		-	-	-	(992,053)
Net cash flows from/(used in) investing activities		(3,693,321)	(9,762,273)	-	(10,251,753)
Cash flows from financing activities					
Payment of finance lease liabilities		(24,979)	(28,632)	-	-
Proceeds from borrowing		2,747,946	-	-	-
Proceeds from issue of shares		174,609	11,952,163	174,609	11,952,163
Dividend paid		(509,007)	-	(509,007)	-
Costs of issue of shares		(10,929)	(1,205,432)	(10,929)	(1,205,432)
Net cash flows from financing activities		2,377,640	10,718,099	(345,327)	10,746,731
Net increase/(decrease) in cash and cash equivalents		1,390,207	807,886	(435,539)	435,539
Cash & cash equivalents at beginning		807,886	-	435,539	-
Cash & cash equivalents at end of period	8	2,198,093	807,886	-	435,539

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

Statements of Changes in Equity

For the year to 30 June 2006

	Issued capital $	Retained earnings $	Total equity $
Consolidated			
Issue of shares on incorporation	2	-	2
Issue of shares for Executive Long Term Incentive Plan	775,405	-	775,405
Issue of shares in initial public offering	11,952,163	-	11,952,163
Costs of raising shares in initial public offering	(1,205,432)	-	(1,205,432)
Future income tax benefit associate with costs of raising shares in initial public offering	361,629	-	361,629
Issue of shares for acquisition of Pro-Pac Group Limited	7,090,953	-	7,090,953
Profit for the period	-	279,785	279,785
Balance as at 1 July 2005	18,974,720	279,785	19,254,505
Issue of shares for executive long term incentive plan	424,160	-	424,160
Cost of raising shares	(10,929)	-	(10,929)
Future income tax benefit associated with costs of rasing shares in initial public offering	3,278	-	3,278
Issues of shares for dividend re-investment plan	174,609	-	174,609
Profit for the year		1,062,032	1,062,032
Dividend paid		(509,007)	(509,007)
Balance as at 30 June 2006	19,565,838	832,810	20,398,648
Parent			
Issue of shares on incorporation	2	-	2
Issue of shares for Executive Long Term Incentive Plan	775,405	-	775,405
Issue of shares in initial public offering	11,952,163	-	11,952,163
Costs of raising shares in initial public offering	(1,205,432)	-	(1,205,432)
Future income tax benefit associated with costs of raising shares in initial public offering	361,629	-	361,629
Issue of shares for acquisition of Pro-Pac Group Limited	7,090,953	-	7,090,953
Profit/(loss) for the period	-	(24,750)	(24,750)
Balance as at 1 July 2005	18,974,720	(24,750)	18,949,970
Issue of shares for executive long term incentive plan	424,160	-	424,160
Cost of raising shares	(10,929)	-	(10,929)
Future income tax benefit associated with costs of rasing shares in initial public offering	3,278	-	3,278
Issues of shares for dividend re-investment plan	174,609	-	174,609
Profit/(loss) for the year		824,217	824,217
Dividend paid		(509,007)	(509,007)
Balance as at 30 June 2006	19,565,838	290,460	19,856,298

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

Notes to the Financial Statements

Note 1: Corporate Information

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2006 was approved for issue in accordance with a resolution of the Directors on 28 September 2006.

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.

As Pro-Pac Packaging Limited was incorporated on 16 February 2005 and the company acquired the Pro-Pac packaging business with effect from 28 April 2005, the comparative results for the prior period only include trading results for the period from 28 April to 30 June 2005.

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 2006.

The financial statements of subsidiaries are prepared for the reporting year ended 30 June 2006 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 recognised profits 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.

Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies continued

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

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

(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 17.

(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 assumption that the Group will be 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. The tax consolidated group has not yet entered a tax sharing agreement.

Notes to the Financial Statements

Note 2: Summary of Significant Accounting Policies continued

(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.

(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.

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.

Note 4: Expenses

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
(a) Other expenses				
Net (Profit)/loss on disposal of non-current asset	(1,557)	4,567	-	-
(b) Finance costs/(income)				
Finance charges payable under finance leases/bank loans	191,656	1,779	4,225	-
Total finance costs	191,656	1,779	4,225	-
(c) Distribution & Royalties				
Freight	340,930	75,285	-	-
Royalties	354,056	88,349	-	-
Total distribution and royalties	694,986	163,634	-	-

Note 5: Income Tax

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Major components of income tax for the year ended 30 June are:				
Income Statement				
Current income tax				
Current income tax charge	406,389	162,699	(163,472)	-
Adjustments in respect of previous years	-	-	-	-
Deferred income tax				
Relating to temporary differences	52,285	(32,359)	118,135	-
Income tax expense in income statement	458,674	130,340	(45,337)	-
Statement of changes in equity				
Current income tax				
Current income tax charge	-	-	-	-
Deferred income tax asset				
Listing costs	3,278	361,629	3,278	361,629
Income tax benefit in equity	3,278	361,629	3,278	361,629

	Consolidated 2006 $	Consolidated 2005 $
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 2006 is as follows:		
Accounting profit before tax	1,520,706	410,125
At the statutory income tax rate of 30%	456,212	123,038
Expenditure not allowable for tax purposes	2,462	7,302
At effective income tax rate of 30.2% (2005 : 31.8%)	458,674	130,340
Income tax expense reported in income statement	458,674	130,340

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 year ending 30 June 2006.

Notes to the Financial Statements

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 2006 $	Consolidated 2005 $
Net profit attributable to equity holders ($)	**1,062,032**	**279,785**
Weighted average number of ordinary shares for basic earnings per share	**40,812,218**	**19,490,333**
Basic and diluted earnings per share (cents per share)	**2.60**	**1.44**

Note 7: Dividends Paid and Proposed

The Company declared and paid an interim fully franked dividend of 1.25 cents per share in April 2006. A final fully franked dividend of 1.00 cent per share was declared on 30 August 2006 with a Record Date of 29 September 2006 and payable on 16 October 2006.

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 year ending 30 June 2006. As such franking credits arising from the other Group companies totalling $2,989,928 will be available to the parent entity.

Note 8: Cash and Cash Equivalents

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash at bank and in hand	2,198,093	807,886	-	435,539
Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates				
The fair value of cash and cash equivalents	2,198,093	807,886	-	435,539
Reconciliation of cash				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at bank and in hand	2,198,093	807,886	-	435,539
Reconciliation from the net profit after tax to the net cash flows from operations				
Net profit after tax	1,062,032	279,785	824,217	(24,750)
Add/(Less) non-cash items:				
Depreciation and amortisation of plant and equipment	340,515	19,086	-	-
Amortisation of prepaid royalty	264,792	-	-	
Loss on disposal of assets	111,407	4,567	-	-
Movement in income tax provision	(493,967)	144,911	(163,472)	-
Movement in deferred tax assets & liabilities	52,285	(14,573)	118,135	-
Movement in provision for bad debts	(4,802)	33,309	-	-
Changes in assets and liabilities:				
Receivables	585,180	(678,398)	4,805	(5,899)
Inventories	30,887	(287,535)	-	-
Payables	609,576	330,037	(13,433)	(6,685)
Provisions	68,026	(14,173)	-	-
Prepayments	75,732	51,943	-	(5,206)
Other current assets	4,225	(16,899)	(860,464)	(16,899)
Net cash flows from/(used in) operating activities	2,705,888	(147,940)	(90,212)	(59,439)

Notes to the Financial Statements

Note 9: Trade and Other Receivables (Current)

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current:				
Trade receivables	3,600,783	4,141,889	-	5,899
Provision for doubtful debts	(54,012)	(58,814)	-	-
Other debtors	1,451	45,526	1,093	-
Total current receivables	3,548,222	4,128,601	1,093	5,899

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

Note 10: Inventories

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Raw materials (lower of cost and net realisable value)	141,868	167,607	-	-
Finished goods (lower of cost and net realisable value)	1,377,675	1,382,823	-	-
Provision for obsolescence	(32,409)	-	-	-
Total inventories at lower of cost and net realisable value	1,487,134	1,550,430	-	-

Note 11: Property, Plant and Equipment

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
At 30 June				
Plant and equipment				
At cost	1,256,687	959,611	-	-
Accumulated depreciation	(221,006)	(19,086)	-	-
	1,035,681	940,525	-	-
Leased plant and equipment				
Capitalised leased plant & equipment	337,933	267,127	-	-
Accumulated depreciation	(84,073)	-	-	-
	253,860	267,127	-	-
Total property, plant and equipment	1,289,541	1,207,652	-	-

Note 11: Property, Plant and Equipment Continued

(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 2006 $	2006 $	2006 $	Parent 2006 $	2006 $	2006 $
	Owned	Leased	Total	Owned	Leased	Total
Balance at the beginning of the year	940,525	267,127	1,207,652	-	-	-
Additions	491,886	98,743	590,629	-	-	-
Disposals	(140,288)	(27,937)	(168,225)	-	-	-
Depreciation charge for the year	(256,442)	(84,073)	(340,515)	-	-	-
Carrying amount at the end of the year	1,035,681	253,860	1,289,541	-	-	-

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 2006 is $253,860. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

Note 12: Intangible Assets

	Consolidated 2006 $	2005 $	Parent 2006 $	2005 $
Goodwill				
Period ended 30 June				
Carrying amount at beginning of the year	13,366,689	-	-	-
Acquisition of controlled entity : Pro-Pac Group Limited	-	12,366,859	-	-
Acquisition of unincorporated business	-	999,830	-	-
Balance of payment for acquisition of unincorporated business	45,998	-	-	-
Impairment	-	-	-	-
Amortisation	-	-	-	-
At 30 June, net of accumulated amortisation	13,412,687	13,366,689	-	-
At 30 June				
Gross (carrying amount)	13,412,687	13,366,689	-	-
Accumulated amortisation and impairment	-	-	-	-
Net carrying amount	13,412,687	13,366,689	-	-

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 26).

Notes to the Financial Statements

Note 13: Other Assets (Non-current)

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Loans to Group Companies	-	-	1,886,861	1,022,252
Prepaid bank fees	12,674	16,819	12,674	16,819
	12,674	16,819	1,899,535	1,039,071

Note 14: Receivables (Non-current)

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Non-current:				
ESPP Receivable	1,199,565	775,405	1,199,565	775,405

For terms and conditions relating to ESPP refer note 17

Note 15: Deferred Tax Assets

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Deferred tax assets				
Deferred tax assets comprise:				
Provisions and other timing differences	232,005	166,156	-	-
Transactions costs on equity issue	246,773	361,629	246,773	361,629
	478,778	527,785	246,773	361,629
Reconciliation of gross movements				
The overall movement in the deferred tax account is as follows:				
Opening balance	527,785	133,797	361,629	-
(Charge)/credit to income statement	(52,285)	32,359	(118,134)	-
Charge to equity	3,278	361,629	3,278	361,629
Closing balance	478,778	527,785	246,773	361,629
Deferred tax assets				
The movement in deferred tax assets for each temporary difference during the year is as follows:				
Provisions and other timing differences at 01 July 2005	166,156	133,797	-	-
Credited to income statement	65,849	32,359	-	-
At 30 June 2006	232,005	166,156	-	-
Transaction cost to equity issue at 01 July 2005	361,629	-	361,629	-
(Charge)/credit to income statement	(118,134)	-	(118,134)	-
Credited directly to equity	3,278	361,629	3,278	361,629
At 30 June 2006	246,773	361,629	246,773	361,629

Note 16: 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 2006 amounted to $264,792.

Portion included under non-current assets - prepayments	$ 2,575,983
Portion included under currents assets - prepayments	$272,736
Total prepayment of royalty (net of amortisation)	**$2,848,719**

Note 17: Employee Benefits

Executive Long Term Incentive Plan

In March 2005 the Company established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by members of the Company for the purposes of sections 260C(4)(a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the Corporations Act. In March 2005, the Company issued 1,754,311 shares to the former Managing Director and currently non Executive Director 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).
- Except for the shares issued to the former Managing Director, 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, 980,000 shares were issued to staff and executives under the ESPP of which 100,000 shares were cancelled due to termination of service of a staff. At the end of the year 2,634,311 shares were in issue under the ESPP.

The shares provided to employees by this plan is not considered to be an option under AASB 2.

Notes to the Financial Statements

Note 18: Trade and Other Payables (Current)

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Trade payables	2,358,560	1,783,418	10,000	23,433
Royalties payable	46,494	105,767	-	-
GST payable	168,737	128,418	-	-
Other tax payable	152,669	111,542	-	-
Sundry creditors and accruals	322,909	342,978	-	-
	3,049,369	2,472,123	10,000	23,433

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 19: Interest Bearing Loans and Borrowings

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current				
Obligations under finance lease & hire purchase (see note 25)	66,666	47,244	-	-
Obligations under bank loan (secured)	98,252	-	-	-
	164,918	47,244	-	-
Non-current				
Obligations under finance lease & hire purchase (see note 25)	226,269	207,966	-	-
Obligations under bank loan (secured)	2,586,990	-	-	-
	2,813,259	207,966	-	-

The obligations under the bank loan are secured as follows:

(a) first ranking registered equitable mortgage over Pro-Pac Packaging Limited and all wholly owned subsidiaries;

(b) cross interlocking guarantees from Pro-Pac Packaging Limited and all wholly owned subsidiaries.

Financing facilities available

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

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Total facilities:				
- bank loans	5,000,000	5,000,000	-	-
Facilities used at reporting date:				
- bank loans	2,600,000	-	-	-
Facilities unused at reporting date:				
- bank loans	2,400,000	5,000,000	-	-

Note 20: Provisions

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current				
Employee entitlements	**359,447**	**314,480**	**-**	**-**
Non-current				
Employee entitlements	**59,872**	**36,813**	**-**	**-**

As at 30 June 2006, excluding the Directors, the consolidated entity employed 59 employees.

Note 21: Contributed Equity

Ordinary shares				
Issued and fully paid	**19,565,838**	**18,974,720**	**19,565,838**	**18,974,720**

Movement in ordinary shares on issue	Number	$	Share Restrictions	Date released
Balance on incorporation	2	2		
Issue of shares for Executive Long Term Incentive Plan	1,754,311	775,405	escrow	March 2008
Issue of shares in initial public offering	23,904,326	11,952,163		
Costs of raising shares in initial public offering		(1,205,432)		
Future income tax benefit associated with costs of raising shares in initial public offering		361,629		
Issue of shares for acquisition of Pro-Pac Group Limited	14,181,907	7,090,953	escrow	June 2006
Balance at 1 July 2005	**39,840,546**	**18,974,720**		
Issue of shares for Executive Long Term Incentive Plan	980,000	472,360	escrow	July 2008
Cancellation of shares for Executive Long Term Incentive Plan	(100,000)	(48,200)		
Cost of raising shares	-	(10,929)		
Future Income Tax Benefit associate with costs of raising shares in initial public offering	-	3,278		
Issues of shares for dividend re-investment plan	491,754	174,609		
Balance at 30 June 2006	**41,212,300**	**19,565,838**		

There was no par value for the shares issued. The company has an Executive Long Term Incentive Plan under which the company's shares have been granted (refer note 17).

Notes to the Financial Statements

Note 22: Financial Risk Management Objectives and Policies

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

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

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

Interest rate risk

The Group's exposure to interest rate risk is limited to interest receivable and payable on bank accounts and drawn down bank loans. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. All cash balances are at call and the average interest rate on the deposits is 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 8.20% 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 23: Financial Instruments

Fair values

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

Interest rate risk

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

	Floating interest rate 2006 $	Fixed interest rate 2006 $	Non-interest bearing 2006 $	Total carrying amount per the balance sheet 2006 $	Weighted average interest rate 2006 %
CONSOLIDATED					
(i) Financial assets					
Cash Assets	2,196,642	-	1,451	2,198,093	5.00
ESPP Receivable	-	-	1,199,565	1,199,565	
Receivables	-	-	3,548,222	3,548,222	
Total financial assets	2,196,642	-	4,749,238	6,945,880	
(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)	1,699,869	918,334	
PARENT					
(i) Financial assets					
Cash Assets	-	-	-	-	
ESPP Receivable	-	-	1,199,565	1,199,565	
Receivables (current)	-	-	169,771	169,771	
Intercompany receivables	-	-	1,886,861	1,886,861	
Total financial assets	-	-	3,256,197	3,256,197	
(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)	-	-	3,246,197	3,246,197	

There is no interest rate applicable on receivables or payables. There is no interest rate applicable to the ESPP shares loan. Any dividends payable in respect of these shares have and will be taken as interest on these loans.

Notes to the Financial Statements

Note 23: Financial Instruments Continued

	Floating Interest rate 2005 $	Fixed interest rate 2005 $	Non-interest bearing 2005 $	Total carrying amount per the balance sheet 2005 $	Weighted average interest rate 2005 %
CONSOLIDATED					
(i) Financial assets					
Cash Assets	806,486	-	1,400	807,886	4.00
ESPP Receivable	-	-	775,405	775,405	
Receivables	-	-	4,128,601	4,128,601	
Total financial assets	806,486	-	4,905,406	5,711,892	
(ii) Financial liabilities					
Finance Leases (current)	-	47,244	-	47,244	7.32
Finance Leases (non-current)	-	207,966	-	207,966	7.30
Bank loans (current)	-	-	-	-	
Bank loans (non-current)	-	-	-	-	
Payables (current)	-	-	2,472,123	2,472,123	
Total financial liabilities	-	255,210	2,472,123	2,727,333	
Net financial assets/(liabilities)	806,486	(255,210)	2,433,283	2,984,559	
PARENT					
(i) Financial assets					
Cash Assets	435,539	-	-	435,539	4.00
ESPP Receivable	-	-	775,405	775,405	
Receivables (current)	-	-	5,899	5,899	
Intercompany receivables	-	-	1,022,252	1,022,252	
Total financial assets	435,539	-	1,803,556	2,239,095	
(ii) Financial liabilities					
Finance Leases (current)	-	-	-	-	
Finance Leases (non-current)	-	-	-	-	
Payables (current)	-	-	23,433	23,433	
Total financial liabilities	-	-	23,433	23,433	
Net financial assets (liabilities)	435,539	-	1,780,123	2,215,662	

Note 23: Financial Instruments Continued

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 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	-	-	-	-	-	-	-

Year ended 30 June 2005	< 1 year	>1-<2 years	>2-<3 years	>3-<4 years	>4-<5 years	> 5 years	Total
CONSOLIDATED							
Cash assets	806,486	-	-	-	-	-	806,486
Finance leases	47,244	50,810	157,156	-	-	-	255,210
Parent							
Cash assets	435,539	-	-	-	-	-	435,539

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 24: 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

Note 25: Commitments and Contingencies

Operating lease commitments – Group as lessee

The Group has entered into a commercial lease on its Sydney property which is non cancellable and has a remaining life of 9 months. The lease has 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 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Within one year	308,700	499,795	-	-
After one year but not more than five years	15,000	418,800	-	-
More than five years	-	-	-	-
	323,700	918,595	-	-

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	2006 Minimum payments $	2006 Present value of payments $	2005 Minimum payments $	2005 Present value of payments $
Within one year	86,044	66,666	64,449	47,244
After one year but not more than five years	241,806	226,269	228,060	207,966
Total minimum lease payments	327,850	292,935	292,509	255,210
Less amounts representing finance charges	(34,915)	-	(37,299)	-
Present value of minimum lease payments	292,935	292,935	255,210	255,210

	2006 $	2005 $
Representing lease liabilities		
Current	66,666	47,244
Non-Current	226,269	207,966
	292,935	255,210

The weighted average interest rate implicit in the leases is 7.32%.

Note 26: Impairment Testing of Indefinite Lived Goodwill

Carrying amount of goodwill

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Carrying amount of goodwill	13,412,687	13,366,689	-	-

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 2006

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 11.1% 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 27: Related Party Disclosure

Parent Entity

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

Subsidiaries

Interests in subsidiaries are set out in note 24.

Transactions with Directors

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

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
i. Salaries and wages	**213,833**	**36,908**	**-**	**-**
ii. Rental expense	**327,820**	**45,950**	**-**	**-**
Payments to Rygrow Pty Ltd for rental related to the Marrickville, Sydney property (inc GST)				
Total payments	**541,653**	**82,858**	**-**	**-**
iii. ESPP shares and loan				
ESPP shares issues	**1,199,565**	**775,405**	**-**	**-**
ESPP receivable	**(1,199,565)**	**(775,405)**	**-**	**-**

Transactions with Group Companies

There is an amount of $956,861 owing to Pro-Pac Packaging Limited from Pro-Pac Packaging (Aust) Pty Ltd at the end of the year.

Notes to the Financial Statements

Note 28: Events after the Balance Sheet Date

Acquisition of business

Subsequent to 30 June 2006, the Company acquired the business and assets of the complementary Melbourne based niche general packaging distributor, Gaine Packaging.

Note 29: Auditors' Remuneration

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Amounts received or due and receivable by UHY Haines Norton (2005: HLB Mann Judd) for an audit or review of the financial report of the entity and any other entity in the consolidated entity.	**40,000**	**36,000**	-	-

Note 30: Director and Executive Disclosures

Information about the remuneration of Directors and Executives which is currently required under Section 300A of the Corporations Act and under the Accounting Standard AASB 124 "Related Party Disclosures" is included in the Remuneration Report within the Directors' Report. The Company has taken the relief provided by Corporations Amendments Regulations 2005 (No. 4) released on 5 July 2005.

Note 31: Change in Accounting Policy

The following Australian Accounting Standard which is applicable to the company has been issued or amended but is not yet effective and has not been adopted in the preparation of the financial statements at reporting date.

AASB 7 Financial Instruments: Disclosure which has recently been issued but is not effective until 1 January 2007 has not been adopted for the annual reporting period ending 30 June 2006. Application of the standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Company's financial instruments.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 15 to 38 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 2006 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 6 to 9 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 28th day of September 2006.

John Read
Chairman

Trevor Morrow
Managing Director

Independent Audit Report

to the Members of Pro-Pac Packaging Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Pro-Pac Packaging Limited ('the company') and Pro-Pac Packaging Limited ("the consolidated entity"), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that 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 6 to 9 of the directors' report and not in 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 the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. 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*.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures in the directors' report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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:

(1) the financial report of Pro-Pac Packaging Limited is in accordance with:

(a) 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 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory professional reporting requirements in Australia.

(2) the remuneration disclosures that are contained in pages 6 to 9 of the directors' report comply with Accounting Standard AASB 124.

Mark Nicholaeff
Partner

UHY Haines Norton
Chartered Accountants

Sydney
29 September 2006

Pro-Forma Summary Income Statement

for the Year Ended 30 June 2006

	Consolidated 2006 $	Consolidated 2005 $
Revenue		
Revenue from sale of goods	24,062,784	21,338,447
Interest income	102,274	83,729
Other income	10,748	-
Total revenue from ordinary activities	24,175,806	21,422,176
Expenses		
Amortisation of prepaid royalty	264,792	-
Raw materials and consumables used	14,917,231	12,362,689
Depreciation	340,515	237,508
Distribution, consumables and royalty costs	694,986	960,280
Employee expenses	4,209,803	3,445,356
Financing expenses	191,656	-
Occupancy costs	519,270	493,238
Other expenses from ordinary activities	1,403,883	1,368,550
Write off of residual carrying value of IT system	112,964	-
Profit from ordinary activities before related income tax expense	1,520,706	2,554,555
Income tax expense	458,674	752,059
Profit after tax	1,062,032	1,802,496

This Pro-Forma Summary Income Statement for Pro-Pac Packaging Limited and its wholly owned subsidiaries does not form a part of the Financial report but is included to as an attachment to the announcement to provide shareholders with information as to the trading performance of the underlying Pro-Pac packaging business for the past year (12 months) relative to that of the previous year (12 months)

The information relating to 2005 has been prepared in accordance with Australian equivalent to International Financial Reporting Standards. ("AIFRS") However the comparative figures for the entire 12 months have not been audited.

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 28 September 2006.

(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	2	687	0.002
1,001 - 5,000	249	928,166	2.252
5,001 - 10,000	259	2,177,797	5.284
10,001 - 100,000	331	10,429,267	25.306
100,001 and over	42	27,676,381	67.156
Totals	**883**	**41,212,298**	**100.00**

There are twenty holders of unmarketable parcels totalling 24,374 shares representing 0.059% of the Company's issued capital.

(b) Twenty largest holders

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

Rank	Holder	No. Ordinary Shares	%
1	CVC LIMITED	7,518,602	18.244
2	PAC FORCE PACKAGING PTY LIMITED	3,086,381	7.489
3	CVC PRIVATE EQUITY LIMITED	2,036,768	4.942
4	MR JONATHAN RAYMOND KAHN	1,754,311	4.257
5	CVC SUSTAINABLE INVESTMENTS LIMITED	1,691,879	4.105
6	LJK NOMINEES PTY LIMITED	1,240,000	3.009
7	POSERE PTY LTD	1,213,972	2.946
8	DERRIN BROTHERS PROPERTIES LTD	1,000,000	2.426
9	NIGTINGALE PARTENERS PTY LTD	922,326	2.238
10	IP 10 PARTNERS PTY LTD	800,000	1.941
11	G SANTALUCIA INVESTMENT PTY	420,000	1.019
12	M J H NIGHTINGALE & CO PTY LTD	420,000	1.019
13	MELBOURNE CORPORATION OF AUSTRALIA PTY LIMITED	400,000	0.971
14	KEISER SHIPPING & TRANSPORT PTY LTD	300,000	0.728
15	DIXSON TRUST PTY LIMITED	300,000	0.728
16	CASTELLA PTY LTD	300,000	0.728
17	ROGAND PTY LTD	300,000	0.728
18	MORROW HOLDINGS PTY LIMITED	250,000	0.607
19	MRS TRACY FRASER	200,000	0.485
20	MR ANDREW PETER DOYLE	200,000	0.485
	Top 20	24,354,239	59.095
	Total	**41,212,298**	**100.000**

Additional Company Information

(c) Substantial shareholders

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

CVC Limited	9,555,370 ordinary shares
Pac Force Packaging Pty Ltd	3,086,381 ordinary shares

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 2,634,311. Shares are restricted in two categories:

ESPP Shares under escrow until 11 March 2008	1,754,311 ESPP shares
ESPP Shares under escrow until 22 July 2008	880,000 ESPP shares

(f) Business objectives

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

PRO-PAC Packaging Limited

6 Rich Street
Marrickville NSW 2204
Tel: (02) 9560 7799
Fax: (02) 9560 4447
www.pro-pac.com.au

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