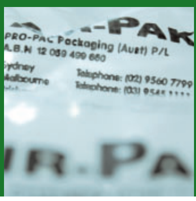
PRO-PAC

Packaging Limited



Annual Report 2005

PRO-PAC Packaging Limited

ACN 112 971 874

PRO-PAC PACKAGING LIMITED

CORPORATE INFORMATION

DIRECTORS
John Read (Chairman)
Jonathan Kahn (Chief Executive Officer)
Elliott Kaplan
Peter Frampton

COMPANY SECRETARY
Mark Saus

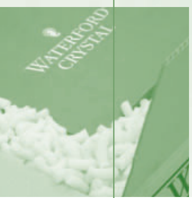
REGISTERED OFFICE
6 Rich Street, Marrickville NSW 2044

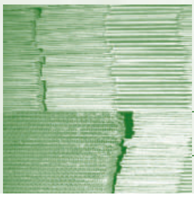
SHARE REGISTER
Registries Limited
Level 2, 28 Margaret Street, Sydney NSW 2000

SOLICITORS
Deacons
Level 7, 1 Alfred Street, Sydney NSW 2000

BANKERS
Commonwealth Bank of Australia
52 Martin Place, Sydney NSW 2000

AUDITORS
HLB Mann Judd (NSW Partnership)
Level 19, 207 Kent Street, Sydney NSW 2000





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CHAIRMAN'S REPORT

Dear Shareholder,

It is with great pleasure that I present this inaugural Annual Report on behalf of the Board of Directors of Pro-Pac Packaging Limited ("the Company" or "Pro-Pac"). This Report covers only a proportion of the 2005 financial year. The Company was incorporated on 16 February 2005. The financial report, the subject of this Annual Report covers the period from 16 February to 30 June 2005 and includes the trading period 28 April 2005, the date of acquisition of the Pro-Pac business, to 30 June 2005. In order to provide shareholders with meaningful information on the performance of the business for the full year to 30 June 2005, we have included an un-audited Pro-Forma Summary Income Statement, with comparative information for the prior year for the Company and its subsidiaries ("the Group"), as an attachment to this Report.

The 2004/05 financial year has been arguably the most significant in the Group's history following its successful listing on the Australian Stock Exchange ("ASX") in March. The Initial Public Offering ("IPO") closed prior to the completion of the offer period and was oversubscribed, with strong interest being shown by both institutional and retail investors. The Board is pleased to report that the Group has met its Prospectus earnings forecast for the 2005 financial year and continued its strong growth with full year revenue for the Group of $21,338,447 and net profit after tax from continuing operations of $1,802,496.

The Group has continued its strategy of acquiring complementary general industrial packaging distribution businesses in this highly fragmented industry with the acquisition of two such businesses during the year. Each of these businesses has been successfully integrated into Pro-Pac's business and contributed to consolidated revenue and earnings growth during the period. The Board is optimistic about its ability to identify, acquire and integrate further businesses in this sector during the 2005/06 financial year and continues to assess opportunities on an ongoing basis.

Sales of environmentally friendly protective packaging products remained strong. The Company is continuing with the development of environmentally friendly packaging products and anticipates the launch of two new products during the coming months.

We enter the 2005/06 financial year with a strong platform for future growth. We are in the process of implementing a new fully integrated CRM and accounting system which, once fully operational, will improve all aspects of sales and financial reporting and will provide a solid platform for additional sales and for realising the potential of new businesses acquired.

On behalf of the Board, I would like to take this opportunity to thank the Pro-Pac management and staff for their dedication and effort. We are grateful for their ongoing commitment and support. We welcome Mr Mark Saus as our new Chief Financial Officer. We look forward to working closely with Mark in this role in the future.

The Board and I thank you for your strong support of Pro-Pac during this exciting formative period. We look forward to rewarding Shareholders with increased value over the coming year.

John Read
Chairman

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 period ended 30 June 2005. As Pro-Pac Packaging Limited ("the Company") was incorporated on 16 February 2005, the financial report covers the period from 16 February to 30 June 2005 and there is no comparative information. 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, this report only includes 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 period from the date of incorporation are as follows:

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

Mr Read is a Fellow of the Australian Institute of Company Directors. He is a former director of CSIRO and 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.

Jonathan Kahn
BCom
(Managing 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.

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
(Appointed Chairman and Non-Executive Director 11 March 2005, resigned on 23 August 2005)

Mr Deane has more than 30 years professional and commercial experience in private and public companies. He was a former partner of chartered accountants KMG Hungerfords and a director of insolvency specialists Prentice Parberry Barilla. Mr Deane gained his commercial experience as an executive officer of a number of public and private companies in the services, distribution and mining sectors. He is currently the chairman and non-executive director of Credit Corp Group Ltd, an Australian ASX listed company.

Mr Deane acted as Chairman of the Remuneration Committee and as a member of the Audit Committee until his resignation from the Board.

Alexander Beard
BCom, CA
(Appointed Non-Executive Director 16 February 2005, resigned 11 March 2005, prior to the acquisition of Pro-Pac Group Limited)

Nominee Directors at incorporation - Gregory Vickery, Paul Paxton-Hall, Michael Joyce (all resigned 16 February 2005)

COMPANY SECRETARY

Mark Saus
BCom, B Compt (Hons), CPA
(Company Secretary - 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,

DIRECTORS' REPORT *continued*

COMPANY SECRETARY *continued*

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 Company.

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

Mr Mooney has more than 20 years finance and commercial experience in private and public companies both in Australia and overseas. He gained his experience as a senior finance and accounting manager in the areas of manufacturing, mining, distribution and marketing. Recent roles include Financial Controller for Ivanhoe Capital Corporation, an international venture capitalist based in Singapore and also NSW State Manager for a division of Alesco Ltd, an Australian ASX listed company.

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	40,000	9,757,152	-	9,757,152
Jonathan Kahn	2,836,381	-	1,754,311	4,590,692
Elliott Kaplan	1,361,464	3,483,654	-	4,845,118
Peter Frampton	50,000	-	-	-

DIRECTORS' MEETINGS

The number of meetings of Directors held during the period and the number of meetings attended by each Director were as follows:

	BOARD	
	No. of meetings held while in office	Meetings attended
John Read	-	-
Christopher Deane	4	4
Jonathan Kahn	5	5
Elliott Kaplan	5	5
Peter Frampton	4	4
Alexander Beard	1	1

There were no Audit Committee or Remuneration Committee meetings held during the period from incorporation to 30 June 2005.

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 period 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 period.

EMPLOYEES

As at 30 June 2005, 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.

DIRECTORS' REPORT *continued*

REVIEW OF OPERATIONS

Net profit after tax for the Group (based on the un-audited Pro-Forma Income Statement for the Group for the year ended 30 June 2005 included in this report) was $1,802,496. This result is slightly higher than that forecast in the IPO Prospectus.

For the trading period 28 April 2005 (date of acquisition of Pro-Pac Group Limited) to 30 June 2005 the Group recorded a net profit after tax of $279,785.

Overall Group revenue continued to grow during the period. Sales revenue for the trading period 28 April 2005 (date of acquisition of Pro-Pac Group Limited) to 30 June 2005 was up 19% on the corresponding period in 2004. Sales revenue for the full financial year was up 16% as compared to the previous financial year.

With effect from 1 June 2005, the Group acquired the general industrial packaging distribution business owned and operated by Navbeck Pty Ltd for a purchase consideration of $1 million plus inventory of approximately $100,000.

Established in 1989, Navbeck is a Sydney based distributor of general industrial packaging products and supplies a diverse customer base. The acquisition represents a further step in the Group's stated strategy of growth through the acquisition of complementary industrial packaging distribution businesses. The Navbeck business was integrated into the Pro-Pac operations subsequent to the end of the financial year.

Subsequent to balance date, the Group made a payment of approximately $3.1 million as an advance royalty for the remaining period of the exclusive licence agreement to manufacture and distribute biodegradable void fill products. While this prepayment of royalties will have no material effect on the Group's future earnings, it will have a positive impact on future operating cash flow. Further details relating to this advance royalty payment are set out in the Significant Events Subsequent to Balance Date section of this report.

Since the start of the new financial year the Group has been implementing a new fully integrated CRM and accounting system. While the implementation of the new system has presented a number of challenges to the Group, the system, once fully operational, will improve all aspects of sales and financial reporting and will provide a solid infrastructure platform for future organic and acquisitive growth.

CAPITAL STRUCTURE

The Company was incorporated on 16 February 2005. At the date of incorporation, the Company had two ordinary shares on issue.

On 11 March 2005, the Managing Director, Jonathan Kahn, was issued 1,754,311 ordinary shares under the Company's Executive Long Term Incentive Plan ("ESPP").

The Company successfully completed its Initial Public Offering (IPO) and was admitted to the Australian Stock Exchange in April 2005. 23,904,326 ordinary shares were issued under the Prospectus at an issue price of $0.50 per share. At the same time, an additional 14,181,907 ordinary shares were issued to the shareholders of Pro-Pac Group Limited as part consideration for the acquisition of 100% of the issued shares of that company.

At 30 June 2005, the Company had 39,840,546 ordinary shares on issue. On 22 July 2005 (after the financial period end), an additional 980,000 shares were issued under the Company's ESPP. As at the date of this report, the Company had 40,820,546 ordinary shares on issue.

OPERATING RESULTS

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 Pro-Pac Packaging Limited and its wholly owned subsidiaries, with comparative information for the prior year, as an attachment to this report. The pro-forma profit from ordinary activities for the full year ended 30 June 2005 after providing for income tax was $1,802,496 (2004: $1,775,407).

The profit from ordinary activities for the trading period 28 April 2005 to 30 June 2005 for the economic entity after providing for income tax was $279,785.

DIVIDENDS PAID OR RECOMMENDED

There were no dividends paid or recommended during the period. As explained by the Company in its IPO Prospectus, a final dividend in respect of the two months trading period will not be paid separately. Instead, the Company expects to pay a special additional dividend of 0.5 cents per share with the first interim dividend of the Company proposed for payment in March 2006.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The following significant changes in the state of affairs of the Company occurred during the financial period:

- The Company successfully completed its Initial Public Offering (IPO) and ASX listing in which it raised $11.9 million.
- The Company acquired 100% of the issued capital of Pro-Pac Group Limited.
- The Company acquired the general industrial packaging distribution business owned and operated by Navbeck Pty Ltd.

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to 30 June 2005, the Company made a payment of approximately $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

DIRECTORS' REPORT *continued*

SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE *continued*

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 two 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 will have no material effect on the Group's future earnings although it will have a positive impact on future cash flow from operations.

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 and the implementation of its new fully integrated CRM and accounting system.

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 period 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 2005 is detailed in the Table on page 8.

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.

REMUNERATION REPORT *continued*

The remuneration of the Managing Director and Senior Management for the period ending 30 June 2005 is set out in the Table on page 8.

Employment contracts

Managing Director

The Company has entered into an executive service agreement with Jonathan Kahn in relation to his role as Managing Director of the Company. The agreement expires on 1 January 2008. In his executive service agreement, Mr Kahn agrees all intellectual property rights created, developed or acquired by him in the course of his employment, belong to the Company.

Except 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 may not be terminated during the 18 month period after admission of the Company to the Official List, after which time it may be terminated on six months notice by the Company. Mr Kahn may not terminate the Agreement until 1 January 2008. This agreement provides that for a period of six months after termination of his employment contract (less any served notice period) Mr Kahn 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 Managing Director under the plan. In July 2005, a further 980,000 shares were issued to staff and executives.

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 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 the employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the shares, including bonus shares, rights and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of shares is three 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.

DETAILS OF DIRECTORS AND EXECUTIVES

(i) Specified Directors

John Read	Chairman (non-executive) (appointed 23 August 2005)
Christopher Deane	Chairman (non-executive) (resigned 23 August 2005)
Jonathan Kahn	Managing Director (appointed 16 February 2005)
Elliott 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.

(ii) Specified Executives

Andrew Mooney

Ken Dargan

Colin Allen

REMUNERATION OF SPECIFIED DIRECTORS AND EXECUTIVES

Excluding the Managing Director, there are only three staff members of the Company who qualify as a "Company Executive" for the purposes of this report. The Specified Executives are also the three most highly paid executive officers of the consolidated entity from the date of incorporation to 30 June 2005.

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

2005		Primary				Equity	Total	%
	Salary & Fees $	Cash Bonus $	Comm-ission $	Super-annuation $	Car Allowance $	ESPP Shares $	$	Performance Based
Specified Directors								
John Read	-	-	-	-	-	-	-	
Christopher Deane	9,083	-	-	-	-	-	9,083	
Jonathan Kahn	31,108	-	-	4,200	1,600	2,144	39,052	5.5%
Elliott Kaplan	6,000	-	-	-	-	-	6,000	
Peter Frampton	6,000	-	-	-	-	-	6,000	
Total Remuneration: Specified Directors	**52,191**	**-**	**-**	**4,200**	**1,600**	**2,144**	**60,135**	
Specified Executives								
Andrew Mooney	18,462	-	-	1,662	2,500	-	22,624	
Ken Dargan	12,615	1,200	-	1,243	3,300	-	18,358	6.5%
Colin Allen	13,460	376	-	1,608	3,000	-	18,444	2.0%
Total Remuneration: Specified Executives	**44,537**	**1,576**	**-**	**4,513**	**8,800**	**-**	**59,426**	

Cash bonuses and commissions are paid for the achievement of sales targets set by the Managing Director.

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

Expected volatility (%)	10
Risk-free interest rate (%)	5.5
Expected life of option (years)	3
Share price ($)	0.442
Dividend yield (%)	6

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

Options issued as part of remuneration for the period ended 30 June 2005

No options were granted as remuneration during the period ended 30 June 2005.

SHARES AND LOANS ISSUED UNDER THE ESPP DURING OR SINCE THE PERIOD ENDED 30 JUNE 2005

ESPP Shares of Specified Directors and Executives as at the date of this report

2005	ESPP Shares Issued (number)	ESPP Shares Issued $	ESPP Loans Granted $	ESPP Issue Price $	ESPP Expiry Date
Specified Directors					
John Read	-	-	-	-	-
Christopher Deane	-	-	-	-	-
Jonathan Kahn	1,754,311	775,405	775,405	0.442	11 March 2008
Elliott Kaplan	-	-	-	-	-
Peter Frampton	-	-	-	-	-
Specified Executives					
Andrew Mooney	-	-	-	-	-
Ken Dargan	100,000	48,200	48,200	0.482	22 July 2008
Colin Allen	100,000	48,200	48,200	0.482	22 July 2008
Total	**1,954,311**	**871,805**	**871,805**		

BENEFICIAL INTEREST IN SHARES OF SPECIFIED DIRECTORS AS AT 30 JUNE 2005

	ESPP Shares Granted (number)	Other (number)	Closing Balance 30 June 2005 (number)
Specified Directors			
John Read	-	40,000	40,000
Christopher Deane	-	200,000	200,000
Jonathan Kahn	1,754,311	3,036,381	4,790,692
Elliott Kaplan	-	1,361,464	1,361,464
Peter Frampton	-	50,000	50,000
Total	**1,754,311**	**4,687,845**	**6,442,156**

OPTION HOLDINGS OF DIRECTORS AND EXECUTIVES

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

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 period.

OTHER TRANSACTIONS WITH DIRECTORS AND EXECUTIVES

During the period the Company paid $45,950 (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.

AUDITORS INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor HLB Mann Judd (NSW Partnership).

The Directors have received the following declaration from the auditor of the Group:

Auditor Independence Declaration to the Directors of Pro-Pac Packaging Limited

As lead auditor for the audit of Pro-Pac Packaging Limited for the period from incorporation on 16 February 2005 to 30 June 2005, I declare that, to the best of my knowledge and belief, there has been:

(a) no contravention of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(b) no contravention of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Pro-Pac Packaging Limited and the entities it controlled during the period.

Dated this 27th day of September 2005.

P B Meade
Partner

HLB Mann Judd (NSW Partnership)
Chartered Accountants

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

Dated this 27th day of September 2005.

Jonathan Kahn
Managing Director

Elliott Kaplan
Director

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 factors, the Company did not comply with some of the Council's recommendations during the period:

- the Company was incorporated on 16 February 2005 and was not admitted to the ASX until April 2005;
- the Company had only two Directors until 21 March 2005 when two further Directors were appointed;
- 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 Directors' 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

CORPORATE GOVERNANCE STATEMENT *continued*

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
Jonathan Kahn	Managing Director	Mr Kahn is a substantial shareholder and employed by the Company in an executive capacity
John Read	Non-Executive Chairman	Mr Read is director of CVC Limited, a substantial shareholder
Elliott Kaplan	Non-Executive Director	Mr Kaplan is an executive of CVC 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	1 month
Jonathan Kahn	8 months
Elliott Kaplan	8 months
Peter Frampton	6 months

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 the 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 of 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 period 16 February 2005 (date of incorporation) to 30 June 2005, but only covering the trading period 28 April 2005 (date of acquisition) to 30 June 2005

	Notes	Consolidated 2005 $	Parent 2005 $
Continuing operations			
Revenue from continuing operations			
Sale of goods		**3,921,183**	**-**
Interest income		**17,446**	**10,737**
Total revenue		**3,938,629**	**10,737**
Expenses			
Cost of goods sold		**2,437,216**	**-**
Depreciation and amortisation expense		**19,086**	**-**
Distribution & royalty expense	4(c)	**163,634**	**-**
Employee benefits expense	4(d)	**588,437**	**20,441**
Finance costs	4(b)	**1,779**	**-**
Occupancy costs		**115,045**	**-**
Other expenses from ordinary activities	4(a)	**203,307**	**15,046**
Profit before income tax		**410,125**	**(24,750)**
Income tax expense	5	**130,340**	**-**
Profit after tax from continuing operations		**279,785**	**(24,750)**
Profit for the period attributable to shareholders		**279,785**	**(24,750)**
Earnings per share (cents per share)			
- basic and diluted for profit for the year	6	**1.44**	
- basic and diluted for profit from continuing operations	6	**1.44**	

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

BALANCE SHEETS

As at 30 June 2005

	Notes	Consolidated 2005 $	Parent 2005 $
Assets			
Current assets			
Cash and cash equivalents	8	**807,886**	**435,539**
Trade and other receivables	9	**4,128,601**	**5,899**
Inventories	10	**1,550,430**	**-**
Prepayments		**114,563**	**5,206**
Total current assets		**6,601,480**	**446,644**
Non-current assets			
Investments in controlled entities at cost		**-**	**16,350,654**
Receivables	14	**775,405**	**775,405**
Property, plant and equipment	11	**1,207,652**	**-**
Intangible assets	12	**13,366,689**	**-**
Deferred tax assets		**527,785**	**361,629**
Other assets	13	**16,819**	**1,039,071**
Total non-current assets		**15,894,350**	**18,526,759**
TOTAL ASSETS		**22,495,830**	**18,973,403**
Liabilities			
Current liabilities			
Trade and other payables	16	**2,472,123**	**23,433**
Interest bearing borrowings	17	**47,244**	**-**
Provisions	18	**314,480**	**-**
Current tax liabilities	5	**162,699**	**-**
Total current liabilities		**2,996,546**	**23,433**
Non-current liabilities			
Provisions	18	**36,813**	**-**
Interest bearing borrowings	17	**207,966**	**-**
Total non-current liabilities		**244,779**	**-**
TOTAL LIABILITIES		**3,241,325**	**23,433**
NET ASSETS		**19,254,505**	**18,949,970**
EQUITY			
Contributed equity	19	**18,974,720**	**18,974,720**
Retained earnings		**279,785**	**(24,750)**
TOTAL EQUITY		**19,254,505**	**18,949,970**

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

CASH FLOW STATEMENTS

For the period 16 February 2005 (date of incorporation) to 30 June 2005, but only covering the trading period 28 April 2005 (date of acquisition) to 30 June 2005

	Notes	Consolidated 2005 $	Parent 2005 $
Cash flows from operating activities			
Receipts from customers		3,676,473	(5,899)
Payments to suppliers & employees		(3,840,080)	(64,277)
Interest received		17,446	10,737
Interest paid		(1,779)	-
Net cash flows used in operating activities	8	(147,940)	(59,439)
Cash flows from investing activities			
Payments for property, plant and equipment		(26,773)	-
Proceeds from sale of property, plant and equipment		20,862	-
Payments for controlled entity net of cash acquired		(8,752,235)	(9,259,700)
Payments for unincorporated business net of cash acquired		(1,004,127)	-
Loans to group companies		-	(992,053)
Net cash flows used in investing activities		(9,762,273)	(10,251,753)
Cash flows from financing activities			
Payment of finance lease liabilities		(28,632)	-
Proceeds from issue of shares		11,952,163	11,952,163
Costs of issue of shares		(1,205,432)	(1,205,432)
Net cash flows from financing activities		10,718,099	10,746,731
Net increase in cash and cash equivalents		807,886	435,539
Cash & cash equivalents at beginning		-	-
Cash & cash equivalents at end of period	8	807,886	435,539

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

STATEMENTS OF CHANGES IN EQUITY

For the period 16 February 2005 (date of incorporation) to 30 June 2005, but only covering the trading period 28 April 2005 (date of acquisition) to 30 June 2005

	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 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 for the period	**-**	**279,785**	**279,785**
At 30 June 2005	**18,974,720**	**279,785**	**19,254,505**
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 for the period	**-**	**(24,750)**	**(24,750)**
At 30 June 2005	**18,974,720**	**(24,750)**	**18,949,970**

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 period ended 30 June 2005 was approved for issue in accordance with a resolution of the Directors on 27 September 2005.

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 the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis. The financial report is presented in Australian dollars.

As Pro-Pac Packaging Limited was incorporated on 16 February 2005, this report only covers the period from 16 February 2005 to 30 June 2005 and there is no comparative information. Similarly, as the Company only acquired the Pro-Pac business with effect from 28 April 2005, this report includes trading operations for the period 28 April 2005 to 30 June 2005.

(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, 2005.

The financial statements of subsidiaries are prepared for the reporting period ended 30 June 2005 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. Unrealised losses are eliminated unless costs cannot be recovered.

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.

Pro-Pac Group Limited has been included in the consolidated financial statements using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of Pro-Pac Group Limited for the period from its acquisition on 28 April 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition

(d) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. 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.

Impairment losses are recognised in the income statement in the cost of sales line item.

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(f) Goodwill

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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 Statements, 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.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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 15.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by a reference to the weighted average closing price of the Company's shares in the five days prior to the grant of the shares.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Pro-Pac Packaging Limited ('market conditions').

The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

(ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The fair value of the employee benefits provided under the ESPP plan is estimated at the date of grant using the binomial model, which incorporates the following factors:

- Expected volatility
- Risk-free interest rate
- Expected life of option
- Share price
- Dividend yield

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

(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

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

(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 Statements 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.

	Consolidated 2005 $	Parent 2005 $
NOTE 4: EXPENSES		
(a) Other expenses		
Net loss on disposal of non-current asset	**4,567**	-
Motor vehicle expenses	**99,029**	-
(b) Finance (costs)/income		
Finance charges payable under finance leases	**1,779**	-
Total finance costs	**1,779**	-
(c) Distribution and royalties		
Freight	**75,285**	-
Royalties	**88,349**	-
Total distribution and royalties	**163,634**	-
(d) Employee benefits expense		
Wages and salaries	**487,633**	-
Workers compensation costs	**12,144**	-
Superannuation costs	**43,775**	-
Directors' fees	**20,441**	**20,441**
Payroll tax	**24,444**	-
Total employee benefit expense	**588,437**	**20,441**

	Consolidated 2005 $	Parent 2005 $
NOTE 5: INCOME TAX		
Major components of income tax for the period ended 30 June 2005 are:		
Income statement		
Current income tax		
Current income tax charge	**162,699**	-
Adjustments in respect of previous years	-	-
Deferred income tax		
Relating to temporary differences	**(32,359)**	-
Income tax expense in income statement	**130,340**	-
Statement of changes in equity		
Current income tax		
Current income tax charge	-	-
Deferred income tax asset		
Listing costs	**361,629**	**361,629**
Income tax benefit in equity	**361,629**	**361,629**

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 period ended 30 June 2005 is as follows:

	Consolidated 2005 $	Parent 2005 $
Accounting profit before tax	**410,125**	
At the statutory income tax rate of 30%	**123,038**	
Expenditure not allowable for tax purposes	**7,302**	
At effective income tax rate of 31.8%	**130,340**	
Income tax expense reported in income statement	**130,340**	

Tax consolidation

The financial report has been prepared on the basis that the Group is yet to determine whether it will adopt the provisions of the tax consolidation regime for the period ending 30 June 2005. Should the tax consolidation provisions be adopted it is expected that there would be no significant effects on the consolidated entity, but that the Company would assume tax liabilities and deferred tax assets of $162,699 and $166,156 respectively from its group companies.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6: EARNINGS PER SHARE *continued*

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

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

NOTE 7: DIVIDENDS PAID AND PROPOSED

The Company has not paid any dividends to date and has not declared any dividends for the financial period ended 30 June 2005. In accordance with the Prospectus issued by the Company during the period, no final dividend will be payable but the Company expects to pay a special additional dividend of 0.5 cents per share with the first interim dividend of the Company proposed to be paid in March 2006.

Franking credit balance

The Company was incorporated in February 2005 and did not acquire the other Group companies until 28 April 2005. The Group has not been consolidated for tax purposes as discussed in note 5. As such, there are no franking credits in existence at the reporting date nor have there been any franking credits generated in the Parent company as at 30 June 2005. Franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends are $1,438,028.

	Consolidated 2005 $	Parent 2005 $
NOTE 8: CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	**807,866**	**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	**807,866**	**435,539**
Reconciliation of cash		
For the purposes of the Cash Flow Statements, cash and cash equivalents comprise the following at 30 June:		
Cash at bank and in hand	**807,866**	**435,539**
Reconciliation from the net profit after tax to the net cash flows from operations		
Net profit after tax	**279,785**	**(24,750)**
Add/(less) non-cash Items:		
Depreciation and amortisation of plant and equipment	**19,086**	**-**
Loss on disposal of assets	**4,567**	**-**
Movement in income tax provision	**144,911**	**-**
Movement in deferred tax assets & liabilities	**(14,573)**	**-**
Movement in provision for bad debts	**33,309**	**-**
Changes in assets and liabilities:		
Receivables	**(678,398)**	**(5,899)**
Inventories	**(287,535)**	**-**
Payables	**330,037**	**(6,685)**
Provisions	**(14,173)**	**-**
Prepayments	**51,943**	**(5,206)**
Other current assets	**(16,899)**	**(16,899)**
Net cash provided by/(used in) operating activities	**(147,940)**	**(59,439)**

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 2005 $	Parent 2005 $
NOTE 9: TRADE & OTHER RECEIVABLES (CURRENT)		
Current:		
Trade receivables	**4,141,889**	**5,899**
Provision for doubtful debts	**(58,814)**	**-**
Other debtors	**45,526**	**-**
Total current receivables	**4,128,601**	**5,899**

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

	Consolidated 2005 $	Parent 2005 $
NOTE 10: INVENTORIES		
Raw materials (at cost)	**167,607**	**-**
Finished goods (lower of cost and net realisable value)	**1,382,823**	**-**
Total inventories at lower of cost and net realisable value	**1,550,430**	**-**

	Consolidated		Parent	
	Plant & Equipment $	Total $	Plant & Equipment $	Total $
NOTE 11: PROPERTY, PLANT AND EQUIPMENT				
Period ended 30 June 2005				
At 16 February 2005, net of accumulated depreciation	**-**	**-**	**-**	**-**
Assets acquired with purchase of controlled entity	**1,213,152**	**1,213,152**	**-**	**-**
Assets acquired with purchase of unincorporated entity	**12,243**	**12,243**	**-**	**-**
Additions	**26,773**	**26,773**	**-**	**-**
Disposals	**(25,430)**	**(25,430)**	**-**	**-**
Depreciation charge for the year	**(19,086)**	**(19,086)**	**-**	**-**
At 30 June 2005, net of accumulated depreciation	**1,207,652**	**1,207,652**	**-**	**-**
At 30 June 2005				
Cost or fair value	**1,226,738**	**1,226,738**	**-**	**-**
Accumulated depreciation and impairment	**(19,086)**	**(19,086)**	**-**	**-**
Net carrying amount	**1,207,652**	**1,207,652**	**-**	**-**

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 2005 is $255,210. Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

	Consolidated Goodwill $	Consolidated Other $	Parent Goodwill $	Parent Other $

NOTE 12: INTANGIBLE ASSETS

	Consolidated Goodwill $	Consolidated Other $	Parent Goodwill $	Parent Other $
Period ended 30 June 2005				
At 16 February 2005, net of accumulated amortisation	-	-	-	-
Acquisition of controlled entity	**12,366,859**	-	-	-
Acquisition of unincorporated business	**999,830**	-	-	-
Additions	-	-	-	-
Impairment	-	-	-	-
Amortisation	-	-	-	-
At 30 June 2005, net of accumulated amortisation	**13,366,689**	-	-	-
At 30 June 2005				
Gross (carrying amount)	**13,366,689**	-	-	-
Accumulated amortisation and impairment	-	-	-	-
Net carrying amount	**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 25).

NOTE 13: OTHER ASSETS (NON CURRENT)

	Consolidated 2005 $	Parent 2005 $
Loans to Group Companies	-	**1,022,252**
Prepaid bank fees	**16,819**	**16,819**
	16,819	**1,039,071**

NOTE 14: RECEIVABLES (NON-CURRENT)

	Consolidated 2005 $	Parent 2005 $
Non-current:		
ESPP receivable	**775,405**	**775,405**

For terms and conditions relating to ESPP refer to note 15.

NOTE 15: 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 Managing Director under the plan. In July 2005, a further 980,000 shares were issued to staff and executives.

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 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 the employee;
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the shares, including bonus shares, rights and dividends. Any dividends paid on the shares by Pro-Pac Packaging Limited are treated as interest on the loan;
- The term of the loans and the vesting period for the shares from the date of issue of the ESPP is three 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 period, 1,754,311 shares were issued under the ESPP. This amount was outstanding at the end of the period. The benefit provided to employees by this plan is considered to be an option under AASB 2. The fair value of each option at the grant date was $0.022, giving a total value of $38,595 for the full period of the benefit. The value of the benefit for the trading period to 30 June 2005 is $2,144.

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

Expected volatility (%)	10
Risk-free interest rate (%)	5.5
Expected life of option (years)	3
Share price ($)	0.442
Dividend yield (%)	6

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

NOTE 16: TRADE AND OTHER PAYABLES (CURRENT)

	Consolidated 2005 $	Parent 2005 $
Trade payables	**1,783,418**	**23,433**
Royalties payable	**105,767**	**-**
GST payable	**128,418**	**-**
Other tax payable	**111,542**	**-**
Sundry creditors and accruals	**342,978**	**-**
	2,472,123	**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.

	Consolidated 2005 $	Parent 2005 $

NOTE 17: INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2005 $	Parent 2005 $
Current		
Obligations under finance lease & hire purchase (see note 24)	**47,244**	-
Non-current		
Obligations under finance lease & hire purchase (see note 24)	**207,966**	-
Financing facilities available		
At reporting date, the following financing facilities had been negotiated and were available		
Total facilities:		
- bank loans	**5,000,000**	-
Facilities used at reporting date:		
- bank loans	-	-
Facilities unused at reporting date:		
- bank loans	**5,000,000**	-

NOTE 18: PROVISIONS

	Consolidated 2005 $	Parent 2005 $
Current		
Employee entitlements	**314,480**	-
Non-current		
Employee entitlements	**36,813**	-

As at 30 June 2005, excluding the Directors, the consolidated entity employed 59 employees.

	Consolidated 2005 $	Parent 2005 $
NOTE 19: CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	**18,974,720**	**18,974,720**

	Number	$	Share Restrictions	Date Released
Movement in ordinary shares on issue				
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**
	39,840,546	**18,974,720**		

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 15).

NOTE 20: 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. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. The Group has no other drawn down interest bearing debt at the reporting date. All cash balances are at call and the average interest rate on the deposits is 4%.

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 7.85% 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 minimal.

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 21: 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 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	-	4,905,405	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
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)	2,433,282	2,984,559	
PARENT					
(i) Financial assets					
Cash assets	435,539	-	-	435,539	4.00
ESPP receivable	-	-	775,405	775,405	
Receivables	-	-	5,899	5,899	
Total financial assets	435,539	-	781,304	1,216,843	
(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	-	757,871	1,193,410	

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 will be taken as interest on these loans. No dividends have been declared by the Company at the date of this report.

NOTE 21: 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 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 22: BUSINESS COMBINATION

Acquisition of Pro-Pac Group Limited

On 28 April 2005, Pro-Pac Packaging Limited acquired 100% of the voting shares of Pro-Pac Group Limited, an unlisted public company based in Australia.

In connection with the business combination, Pro-Pac Packaging Limited issued 14,181,907 ordinary shares with a fair value of $0.50 each based on the issue price of the Pro-Pac Packaging Limited shares under its IPO Prospectus.

Pro-Pac Packaging (Aust) Pty Ltd acquired the business of Navbeck Pty Limited with effect from 1 June 2005.

NOTE 22: BUSINESS COMBINATION *continued*

The fair value of the identifiable assets and liabilities of entities acquired by the Group as at the date of acquisition are shown below:

	Pro-Pac Group Limited recognised on acquisition	Navbeck recognised on acquisition
Cash consideration and costs	**9,259,700**	**1,004,127**
Non-cash consideration (i)	**7,090,954**	**-**
Total consideration	**16,350,654**	**1,004,127**
Fair value of net assets acquired:		
Cash assets	**507,465**	**-**
Inventory	**1,262,895**	**96,760**
Receivables	**3,509,017**	**-**
Other current assets	**166,504**	**-**
Other non-current assets	**151,503**	**-**
Property, plant and equipment	**1,213,151**	**12,243**
Trade creditors	**(2,167,591)**	**(96,760)**
Employee entitlements	**(357,520)**	**(7,946)**
Tax liabilities	**(17,788)**	**-**
Other current liabilities	**(283,841)**	**-**
Total fair value of identifiable net assets acquired:	**3,983,795**	**4,297**
Goodwill arising	**12,366,859**	**999,830**
	16,350,654	**1,004,127**
Cash consideration and costs	**9,259,700**	**1,004,127**
Less: cash acquired	**(507,465)**	**-**
Net cash outflow	**8,752,235**	**1,004,127**

(i) Non-cash consideration for the Pro-Pac Group Limited acquisition represents 14,181,907 shares in the Company issued to shareholders in Pro-Pac Group Limited at a valuation based on the IPO price of $0.50 per share.

From the date of acquisition, Pro-Pac Group Limited has contributed $304,535 to the profit after tax of the Group. If the acquisition of Pro-Pac Group Limited had taken place at the date of incorporation of the Company (16 February 2005), the profit after tax for the Group would have been $594,941 and the revenue from continuing operations would have been $7,202,412. If the acquisition of Pro-Pac Group Limited had taken place at 1 July 2004, the profit after tax for the Group would have been $1,802,496 and revenue from continuing operations would have been $21,422,176.

A calculation of the profit after tax contributed to the Group by the Navbeck acquisition and the profit after tax for the Group if the Navbeck business had taken place at the beginning of the year is impracticable. The business of Navbeck was absorbed into the Pro-Pac business immediately upon acquisition. As the business activities of Navbeck are the same as those of the Pro-Pac business, following the acquisition and absorption, separate identification of profit after tax is not possible. Similarly, information regarding performance from the date of incorporation to the date of acquisition was not prepared by the acquired business.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23: SUBSIDIARIES

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

	Country of Incorporation	Class of Shares	Equity Holding
Direct controlled entities:			
Pro-Pac Group Limited	Australia	Ordinary	100%
Controlled entities owned 100% by Pro-Pac Group Limited			
Pro-Pac Packaging (Aust) Pty Ltd	Australia	Ordinary	100%
Pro-Pac Manufacturing (GLP) Pty Ltd	Australia	Ordinary	100%
Controlled entities owned 100% by Pro-Pac Packaging (Aust) Pty Ltd			
Pro-Pac Packaging Manufacturing (Syd) Pty Ltd	Australia	Ordinary	100%
Pro-Pac Packaging Manufacturing (Melb) Pty Ltd	Australia	Ordinary	100%
Pro-Pac Packaging Manufacturing (Bris) Pty Ltd	Australia	Ordinary	100%

NOTE 24: 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 21 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 2005 $	Parent 2005 $
Within one year	**499,795**	-
After one year but not more than five years	**418,800**	-
More than five years	-	-
	918,595	-

Figures exclude GST

NOTE 24: COMMITMENTS AND CONTINGENCIES *continued*

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	2005 Minimum payments $	2005 Present value of payments $
Within one year	**64,449**	**47,244**
After one year but not more than five years	**228,060**	**207,966**
Total minimum lease payments	**292,509**	-
Less amounts representing finance charges	**(37,299)**	-
Present value of minimum lease payments	**255,210**	**255,210**
	2005 $	**2004 $**
Representing lease liabilities		
Current	**47,244**	-
Non-current	**207,966**	-
	255,210	-

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

NOTE 25: IMPAIRMENT TESTING OF INDEFINITE LIVED GOODWILL

Carrying amount of goodwill

Carrying amount of goodwill	**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 2005
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.
There has been no impairment of goodwill during the period.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26: RELATED PARTY DISCLOSURE

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

Subsidiaries
Interests in subsidiaries are set out in note 23.

Transactions with Directors
The Company or members of the Group have entered into the following agreements with the Managing Director, Mr Jonathan Kahn, or entities related to Mr Kahn.

	Consolidated 2005 $	Parent 2005 $
i. Salaries and wages	**36,908**	-
ii. Rental expense Payments to Rygrow Pty Ltd for rental related to the Marrickville, Sydney property (inc GST)	**45,950**	-
Total payments	**82,858**	-
iii. ESPP shares and loan		
ESPP shares issues	**775,405**	-
ESPP receivable	**(775,405)**	-
Fair value uplift	**2,144**	-

Transactions with Group Companies
There is an amount of $1,022,252 owing to Pro-Pac Packaging Limited from Pro-Pac Packaging (Aust) Pty Ltd at the end of the period.

NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

Prepayment of royalties
Subsequent to 30 June 2005, the Company made a payment of approximately $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 will have no material effect on the Group's future earnings although it will have a positive impact on future cash flow from operations.

	Consolidated 2005 $	Parent 2005 $
NOTE 28: AUDITORS' REMUNERATION		
Amounts received or due and receivable by HLB Mann Judd for an audit or review of the financial report of the entity and any other entity in the consolidated entity	**36,000**	-

NOTE 29: 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 1046 "Directors and Executives Disclosures by Disclosing Entities" 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.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Pro-Pac Packaging Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the period ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001;

(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.

On behalf of the Board this 27th day of September 2005.

Jonathan Kahn	**Elliott Kaplan**
Managing Director	*Director*

INDEPENDENT AUDIT REPORT

To the members of Pro-Pac Packaging Limited:

Scope

The financial report and directors' responsibility

The financial report comprises the income statements, balance sheets as at 30 June 2005, statements of cash flows, statements of changes in equity, accompanying notes to the financial statements, and the directors' declaration for the period from incorporation 16 February 2005 to 30 June 2005 for both Pro-Pac Packaging Limited ("the company") and the Pro Pac Group ("the consolidated entity") as set out on pages 14 to 35. The consolidated entity comprises both the company and the entities it controlled during that period.

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 designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

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 that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, 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.

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
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

Independence

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

The Directors Report attached to the financial statements includes a copy of the Independence Declaration dated 27 September 2005 given to the Directors by the lead auditor for the audit. That Declaration would be in the same terms if it had been given to the Directors at the time this audit report was made.

Audit opinion

In our opinion, 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 2005 and of their performance for the period ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Dated at Sydney this 27th day of September 2005.

P B Meade
Partner

HLB Mann Judd (NSW Partnership)
Chartered Accountants

PRO-FORMA SUMMARY INCOME STATEMENT

for the year ended 30 June 2005

	Consolidated 2005 $	Consolidated 2004 $
Revenue		
Revenue from sale of goods	**21,338,447**	18,415,189
Interest income – other parties	**83,729**	66,571
Total revenue from ordinary activities	**21,422,176**	18,481,760
Expenses		
Cost of goods sold	**12,362,689**	10,019,351
Depreciation	**237,508**	121,179
Distribution, consumables and royalty costs	**960,280**	793,129
Motor vehicle expense	**513,978**	481,022
Operating lease costs	**-**	218,001
Rental expense	**420,398**	319,876
Salaries & other employee costs	**3,445,356**	3,148,686
Other expenses from ordinary activities	**927,412**	926,785
Profit from ordinary activities before related income tax expense	**2,554,555**	2,453,731
Income tax expense	**752,059**	678,324
Net profit	**1,802,496**	1,775,407

This Pro-Forma Summary Income Statement for Pro-Pac Packaging Limited and its wholly owned subsidiaries does not form part of the Financial Report but is included as an attachment to the announcement to provide shareholders with information as to the trading performance of the underlying Pro-Pac business.

This Pro-Forma Summary Income Statement includes information extracted from the 30 June 2004 audited financial report of Pro-Pac Group Limited and from the consolidated financial report of Pro-Pac Packaging Limited for the current period. The information relating to 2005 has been prepared in accordance with Australian equivalents to International Financial Reporting Standards ("AIFRS"). For comparative purposes, the information relating to 2004 has also been prepared under AIFRS and therefore excludes amortisation of goodwill for that period.

However, the above statement itself has 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 4 October 2005.

(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	3	2,300	0.006
1,001-5,000	326	1,252,520	3.068
5,001-10,000	366	3,183,751	7.799
10,001-100,000	412	12,924,944	31.663
100,001 and over	32	23,457,029	57.464
Totals	**1,139**	**40,820,544**	**100.000**

There are ten holders of unmarketable parcels totalling 9,929 shares representing 0.042% 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	6,273,498	15.368
2	PAC FORCE PACKAGING PTY LIMITED	2,836,381	6.948
3	CVC PRIVATE EQUITY LIMITED	1,849,321	4.530
4	MR JONATHAN RAYMOND KAHN	1,754,311	4.298
5	CVC SUSTAINABLE INVESTMENTS LIMITED	1,634,333	4.004
6	POSERE PTY LTD	1,213,972	2.974
7	DERRIN BROTHERS PROPERTIES LTD	1,000,000	2.450
8	IP 10 PARTNERS PTY LTD	800,000	1.960
9	LJK NOMINEES PTY LIMITED	640,000	1.568
10	SANDHURST TRUSTEES LTD	600,000	1.470
11	LJK NOMINEES PTY LTD	400,000	0.980
12	CASTELLA PTY LTD	400,000	0.980
13	G SANTALUCIA INVESTMENT PTY LTD	400,000	0.980
14	MELBOURNE CORPORATION OF AUSTRALIA PTY LIMITED	362,500	0.888
15	KEISER SHIPPING & TRANSPORT PTY LTD	300,000	0.735
16	DIXSON TRUST PTY LIMITED	300,000	0.735
17	MRS TRACY FRASER	200,000	0.490
18	LARINDA PTY LIMITED	200,000	0.490
19	AMACHONG NOMINEES PTY LTD	200,000	0.490
20	SYVEST PTY LTD	200,000	0.490
	Top 20	21,564,316	52.828
	Total	**40,820,544**	**100.000**

ADDITIONAL COMPANY INFORMATION *continued*

(c) Substantial shareholders

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

Shareholder	Number of Ordinary Shares
CVC Limited	8,122,819
Pac Force Packaging Pty Ltd	3,036,381
Pro-Pac Packaging Limited*	15,936,219
Commonwealth Bank of Australia*	16,069,744

* *Included by virtue of the terms and conditions of the Escrow Agreement entered into between the Company, the Underwriter to the Company's IPO and the shareholders of Pro-Pac Group Limited in April 2005.*

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

(e) Restricted securities

Restricted securities total 16,916,219. Shares are restricted in three categories:

Ordinary Shares under escrow until 30 June 2006	14,181,908 ordinary shares
ESPP Shares under escrow until 11 March 2008	1,754,311 ESPP shares
ESPP Shares under escrow until 22 July 2008	980,000 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

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