



# Packaging & Distribution



**Pro-Pac** Packaging Limited | Annual Report

2016



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# Corporate Information

## Pro-Pac Packaging Limited

ACN: 112 971 874 ABN: 36 112 971 874

### DIRECTORS

Ahmed Fahour (Chairman)  
Elliott Kaplan  
Brandon Penn  
Dr Gary Weiss

### COMPANY SECRETARY

Mark Saus

### REGISTERED OFFICE

Building 1, 147-151 Newton Road,  
Wetherill Park NSW 2164

### PRINCIPAL PLACE OF BUSINESS

Building 1, 147-151 Newton Road,  
Wetherill Park NSW 2164

### SHARE REGISTER

Boardroom Limited  
Level 12, 225 George Street, Sydney NSW 2000

### SOLICITORS

Thomson Geer  
Level 25, 1 O'Connell Street, Sydney NSW 2000

### BANKERS

Commonwealth Bank of Australia  
Premium Business Services  
Level 1, 430 Forest Road, Hurstville NSW 2220

### AUDITORS

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

### STOCK EXCHANGE LISTING

Pro-Pac Packaging Limited shares are listed on the  
Australian Securities Exchange (ASX code: PPG)

### WEBSITE

[www.ppgaust.com.au](http://www.ppgaust.com.au)

"THE COMPANY CONTINUES TO LOOK FOR  
ATTRACTIVE ACQUISITIONS THAT ARE ACCRETIVE  
AND MEET RETURN ON INVESTMENT HURDLES."

# Chairman's Report

On behalf of the Board of Directors and the management it is my pleasure to present Pro-Pac Packaging Limited's annual report for the year ended 30 June 2016.

At the outset, I am pleased to note that for the year ended 30 June 2016, the Company reported a solid and pleasing set of results including profit after tax up 19% to \$6.9 million which translates to an increase in earnings per share of 16% to 3.01 cents and dividends per share up 10% to 2.75 cents. Net cash from operating activities was also up 162% to \$14.2 million.

These results were achieved despite continued difficult general industry trading conditions, rising raw material input prices and adverse margin impacts from the significant downward movement in the A\$/US\$ exchange rate during the year.

Sales were down 1% on the prior year reflecting a sluggish Australian economy and competitive markets. As previously reported, demand from the manufacturing, distribution, resources and meat processing sectors was soft, particularly later in the first half and continued for the remainder of the financial year. However, the Company experienced good growth in the pharmaceutical, healthcare, retail and dairy sectors.

Despite hedging strategies, adverse forex movements due mainly to the ongoing decline of the AUD increased the cost of imported goods sold relative to the prior year, particularly during H1. Consequently, throughout the year the Company progressively increased prices to its customers to recover this cost increase. As a result, margins were maintained broadly in line with the prior year but sales volumes were adversely affected.

The maintenance of margins and the continued focus on cost out strategies yielded substantial savings in administration, distribution and selling expenses that enabled the Company to record a profit before tax of \$10.1 million, an increase of 20% up on the prior year.

Rigid Division had an excellent year, with good top line growth and lower resin costs resulting in EBITDA increasing 18% on the prior year.

Industrial Division, which imports most of its products, was adversely affected by the declining AUD. As alluded to above, steps taken to stabilise margins within the division adversely effected sales which finished lower than the prior year. EBITDA for the division was however up 3% on the prior year, largely due to effective cost control.

The Company expects the Australian economy and the Company's markets to remain subdued. Cost reduction initiatives and measures to stabilise margins will continue during FY17. The Company continues to look for attractive acquisitions that are accretive and meet return on investment hurdles.

Despite the challenging business conditions the Board remains confident in the Company's ability to continue to grow profitably and when considered in conjunction with a strong balance sheet and solid cash flows the Board decided to maintain the final dividend at 1.5 cents per share for the second half. This, combined with the interim dividend, resulted in shareholders receiving a total dividend of 2.75 cents per share fully franked for the financial year, an increase of 10% over the prior year.

In July 2016 Peter Sutton resigned as CEO to pursue private business interests and the Board and I thank Peter for his contribution to the Group during his tenure. As previously advised, former long term CEO, major shareholder and Non-Executive Director, Brandon Penn, was appointed "acting CEO" while an active formal executive search is finalised. A leading executive search firm has been appointed by the Board to recruit the next CEO.

Finally, I would like to thank my fellow Directors and the management team which are focused on looking after our employees and customers and together continuing to grow a successful packaging and distribution company in Australia that creates shared value.

**Ahmed Fahour**

*Chairman*

# Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity ("the Group") consisting of Pro-Pac Packaging Limited ("the Company") and the entities it controlled at the end of the year ended 30 June 2016.

## DIRECTORS

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

### Ahmed Fahour

**B Econ, MBA**

*(Non-Executive Director – appointed Director 28 March 2014 and Chairman 25 November 2014)*

Mr Fahour is the Managing Director and CEO of Australia Post. He has held a number of senior executive positions within the finance and banking industries in Australia and overseas and was previously CEO of Citigroup (Australia and New Zealand) and National Australia Bank (Australia). He is the chairman of LaunchVic and is also an Adjunct Professor in the Faculty of Business, Economics and Law at La Trobe University.

Mr Fahour is Chairman of the Remuneration Committee of Pro-Pac.

### Elliott Kaplan

**BAcc, CA**

*(Non-Executive Director – appointed Director 1 March 2005)*

Mr Kaplan is a Chartered Accountant with extensive Board experience following numerous 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 a Director of Eildon Capital Limited (formerly CVC Private Equity Limited), a non-executive Director of Cellnet Limited and a Director of a number of unlisted companies. Mr Kaplan is also a former Director of DoloMatrix Limited, The Environmental Group Limited and Grays Ecommerce Group Limited.

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

### Brandon Penn

**B. Com**

*(Non-Executive Director – appointed 16 August 2007, resigned as CEO 12 May 2015, appointed Acting CEO 13 July 2016)*

Mr Penn is the founding Director of the PB Group which merged with PPG in 2007. He has had a number of business interests alongside the PB Group including the establishment

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

Mr Penn is a member of the Remuneration Committee.

### Dr Gary Weiss

**LL.B (Hons), LL.M (with dist.), Doctor of Juridical Science (JSD)**

*(Non-Executive Director – appointed 28 May 2012)*

Dr Weiss is Chairman of Ridley Corporation Ltd. He is Executive Director of Ariadne Australia Ltd and a Director of several other public companies including Premier Investments Ltd, Thorney Opportunities Ltd and The Straits Trading Company Ltd.

Dr Weiss is a member of both the Audit and Remuneration Committees.

## CHIEF EXECUTIVE OFFICER

### Peter Sutton

**B. Eng.**

*(Chief Executive Officer - appointed 13 May 2015, resigned 13 July 2016)*

## COMPANY SECRETARY

### Mark Saus

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

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

Mr Saus has more than 30 years' experience in commercial and financial management roles in private and public listed companies both in Australia and overseas. His experience spans a diverse range of industries including manufacturing, distribution and retail. Past roles include head of finance positions in high growth SME environments. Mr Saus is also the Chief Financial Officer of the Group.

# Directors' Report

## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the relevant interests of the Directors in the shares and options of the Company are shown in the table below:

	Opening balance	ORDINARY SHARES		Closing balance
		Additions	Disposals	
Ahmed Fahour	10,000,000	674,153	-	10,674,153
Elliott Kaplan	216,357	-	-	216,357
Brandon Penn	24,958,817	-	-	24,958,817
Dr Gary Weiss	300,000	-	-	300,000

	Opening balance	OPTIONS		Closing balance
		Additions	Disposals	
Elliott Kaplan	1,200,000	-	-	1,200,000

## MEETINGS OF DIRECTORS

Attendances by each Director during the year were:

	BOARD		AUDIT COMMITTEE		REMUNERATION COMMITTEE	
	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended	Number of meetings held while in office	Meetings attended
Elliott Kaplan	7	7	3	3	1	1
Ahmed Fahour	7	7	-	-	1	1
Dr Gary Weiss	7	6	3	3	1	1
Brandon Penn	7	7	-	-	1	1

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the manufacture and distribution of industrial, protective and rigid packaging products.

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

## OVERVIEW OF THE COMPANY'S BUSINESS

Despite continued difficult general industry trading conditions, rising raw material input prices and adverse margin impacts from the significant downward movement in the A\$/US\$ exchange rate during the year, the business delivered a solid result for the 12 months to 30 June 2016.

Sales were down 1% on the prior year reflecting a sluggish Australian economy and competitive markets. As previously reported, demand from the manufacturing, distribution, resources and meat processing sectors was soft, particularly later in the first half and continued for the remainder of the financial year. However, the Company experienced good growth in the pharmaceutical, healthcare, retail and dairy sectors.

Despite hedging strategies, adverse forex movements due mainly to the ongoing decline of the AUD increased the cost of imported goods sold relative to the prior year, particularly during H1. Consequently, throughout the year the Company progressively increased prices to its customers to recover this cost increase. As a result, margins were maintained broadly in line with the prior year but sales volumes were adversely affected.

The maintenance of margins and the continued focus on cost out strategies yielded substantial savings in administration, distribution and selling expenses that enabled the Company to



record a profit before tax of \$10.1 million, an increase of 20% up on the prior year.

Rigid Division had an excellent year, with good top line growth and lower resin costs resulting in EBITDA increasing 18% on the prior year.

Industrial Division, which imports most of its products, was adversely affected by the declining AUD. As alluded to above, steps taken to stabilise margins within the division adversely effected sales which finished lower than the prior year. EBITDA for the division was however up 3% on the prior year, largely due to effective cost control.

## DIVIDENDS

	2016 \$000's	2015 \$000's
<b>Dividends paid during the year:</b>		
Final dividend for 2015 – 1.5 cents per ordinary share (2014 – 1 cent per ordinary share)	3,427	2,267
Interim dividend for 2016 – 1.25 cents per ordinary share (2015 – 1 cent per ordinary share)	2,953	2,266
	<b>6,380</b>	<b>4,533</b>

In August 2016, the Company declared a fully franked final dividend of 1.5 cents per share. The record date for determining entitlement to the dividend is 8 September 2016 and the dividend will be paid on 22 September 2016. The Company's Dividend Reinvestment Plan will apply to this dividend. No discount will apply to the issue price.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no changes in the state of affairs of the Company during the year.

## SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE

On 26 August 2016, the Company declared a fully franked final dividend of 1.5 cents per share.

## LIKELY DEVELOPMENTS

Apart from the commentary outlined above, the Directors have excluded from this report any further information on the likely developments in the operations of the Company and the

expected results of those operations in future financial years, as the Directors consider that it would be likely to result in unreasonable prejudice to the Company.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

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

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND THE AUDITOR

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

## REMUNERATION REPORT (AUDITED)

### 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 Mr Ahmed Fahour (Chairman), Mr Elliott Kaplan and Dr Gary Weiss who are Non-Executive Directors. Mr Brandon Penn served on the committee as a Non-Executive Director until 13 July 2016 when he assumed the position of Acting CEO.

# Directors' Report

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

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

## Non-Executive Directors 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 \$400,000 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 2016 is detailed in Table 1 of this Remuneration Report.

## Executive Director and Senior Management remuneration

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

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

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

The Board is responsible for determining remuneration packages

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

The remuneration of the Chief Executive Officer and senior management for the year ending 30 June 2016 is set out in Table 1 of this report.

## Employment contracts

### Chief Executive Officer

Mr Peter Sutton resigned on 13 July 2016.

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

The Company or the executive could have terminated the service agreement by giving the other party three months' notice. In the event of a completion of a sale of all or substantially all of the assets or shares in the Company (a Change of Control) or the sale of a significant part of the Company that would materially change the scope and responsibilities of the CEO role, then the notice period required to be given to Mr Sutton was six months, which he may elect to receive in payment in lieu of notice instead of working part or all of the notice period.

The Company could terminate the agreement at any time with immediate effect in the event of misconduct. The agreement provided that for a period of six months after termination of his employment contract (less any served notice period) Mr Sutton will not compete with the Group in Australia.

### Senior Management

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

Event	Company Policy
Resignation/notice period	6 months or less
Serious misconduct	Company may terminate at any time
Payouts upon resignation or termination, outside industrial regulations (ie 'golden handshakes')	None

## Executive Long Term Incentive Plan (ESPP)

The Company has established an ESPP to encourage employees to share in the ownership of the Company and promote the long-term success of the Company as a goal shared by the employees. The ESPP has been approved by



members of the Company for the purposes of sections 260C(4) (a), 259B(2)(a), 257B(1) and paragraph (b) of the definition of employee share scheme buy-back in section 9 of the *Corporations Act 2001*. There are currently 4,900,000 shares issued to employees under the Plan.

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

- No shares under the ESPP will be allotted unless the requirements of the *Corporations Act 2001* and the ASX Listing Rules have been complied with.
- Performance hurdles apply to the ESPP. The key performance hurdle is that the total shareholder return to shareholders of the Company must exceed the rate of growth over the same period for the S&P/ASX Small Ordinaries Accumulation Index (or any equivalent or replacement of that index).
- Shares are allocated to employees at either the value of shares as detailed in the latest disclosure document issued by the Company or the 5-day weighted average price immediately prior to the offer being made to the employee.
- The Company may provide loans to participants to acquire shares under the ESPP. As security for the loans, participants will pledge the shares acquired under the ESPP to the Company at the time the loans are provided and will grant a charge over any benefits attributable to the Shares, including bonus shares, rights, and dividends. Any dividends paid on the shares by the Company are treated as interest on the loan.
- The term of the loans and the vesting period for the shares from the date of issue of shares is 3 years.
- The Shares will be registered in the names of the participants from allotment, but will remain subject to restrictions on dealing while they are pledged as security for a loan or subject to performance hurdles specified.
- If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares surrendered in full settlement of the outstanding loan balance.
- During the year 3,300,000 shares were issued to staff and executives under the ESPP, while 430,000 were forfeited and were cancelled or await cancellation. At the end of the year 4,900,000 shares were in issue under the ESPP.
- No other features of the benefit provided (including vesting conditions) were incorporated into the measurement of fair value.
- The fair value of the employee benefit provided under the ESPP plan is estimated at the date of grant using the binomial model, and the following assumptions: expected volatility, risk-free interest rate, expected life of option, share price, dividend yield and probability of achievement.
- Under Australian Accounting Standards, shares issued to executives under the Long Term Executive Incentive Plan are now considered to be options granted. Comparative figures for the prior financial years have been adjusted accordingly.

Grant date	Expiry Date	Price	Balance at beginning of year	Granted	Exercised	Expired/ forfeited	Balance at end of year
<b>2016</b>							
17/10/12	16/10/15	0.485	280,000	-	-	280,000	-
22/07/13	21/07/16	0.458	800,000	-	-	-	800,000
25/03/14	24/03/17	0.460	950,000	-	-	100,000	850,000
07/10/15	06/10/18	0.417	-	3,300,000	-	50,000	3,250,000
<b>Total</b>			<b>2,030,000</b>	<b>3,300,000</b>	<b>-</b>	<b>430,000</b>	<b>4,900,000</b>

1,000,000 ESPP shares granted to Peter Sutton on 7 October 2015 were returned to the Company on his resignation on 13 July 2016 pending cancellation at the next AGM.

<b>2015</b>							
05/04/12	04/04/15	0.500	200,000	-	-	200,000	-
17/10/12	16/10/15	0.485	330,000	-	-	50,000	280,000
22/07/13	21/07/16	0.458	1,100,000	-	-	300,000	800,000
25/03/14	24/03/17	0.460	1,050,000	-	-	100,000	950,000
<b>Total</b>			<b>2,680,000</b>	<b>-</b>	<b>-</b>	<b>650,000</b>	<b>2,030,000</b>

# Directors' Report

## Key Management Personnel at 30 June 2016

Ahmed Fahour	–	Non-executive Chairman
Elliott Kaplan	–	Non-executive Director
Dr Gary Weiss	–	Non-executive Director
Brandon Penn	–	Non-executive Director (acting CEO effective 13 July 2016)
Peter Sutton	–	Chief Executive Officer (resigned 13 July 2016)
Hadrian Morrall	–	Divisional Managing Director (retired 30 June 2016)
Mark Saus	–	Chief Financial Officer and Company Secretary

## Remuneration of Key Management Personnel

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

**Table 1**

		Short-term benefits		Post employment benefits	Other long term benefits	Share based payment	Total	
		Cash, salary and fees	Non-monetary benefits	Super-annuation	Other	Equity and options	Performance based	
		\$	\$	\$	\$	\$	\$	%
Ahmed Fahour	2016	107,417	-	2,083	-	-	109,500	-
	2015	50,001	-	4,750	-	-	54,751	-
Elliott Kaplan	2016	60,000	-	5,700	-	-	65,700	-
	2015	60,000	-	5,700	-	-	65,700	-
Gary Weiss	2016	48,000	-	4,560	-	-	52,560	-
	2015	48,000	-	4,560	-	-	52,560	-
Brandon Penn	2016	105,577	-	5,280	-	-	110,857	-
	2015	247,542	-	19,835	-	-	267,377	-
Peter Sutton	2016	404,688	-	34,950	-	7,368	447,006	-
	2015	304,998	-	35,000	-	-	339,998	-
Hadrian Morrall	2016	215,641	22,980	22,269	-	-	260,890	-
	2015	205,023	22,980	21,440	-	-	249,443	-
Mark Saus	2016	210,924	-	34,900	-	6,877	252,701	5%
	2015	195,418	-	34,900	-	4,667	234,985	5%
Wendy Penn	2016	-	-	-	-	-	-	-
	2015	151,132	4,000	10,012	-	-	165,144	-
<b>Total Remuneration</b>	<b>2016</b>	<b>1,152,247</b>	<b>22,980</b>	<b>109,742</b>	<b>-</b>	<b>14,245</b>	<b>1,299,214</b>	<b>-</b>
	<b>2015</b>	<b>1,262,114</b>	<b>26,980</b>	<b>136,197</b>	<b>-</b>	<b>4,667</b>	<b>1,429,958</b>	<b>-</b>

## Shares and Loans issued under the ESPP during the year ended 30 June 2016

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

	ESPP Shares (number)	ESPP Shares \$	ESPP Loans Outstanding \$	ESPP Issue Price \$	ESPP Expiry Date
Mark Saus	150,000	69,000	69,000	0.46	24 March 2017
Mark Saus	300,000	125,100	125,100	0.417	6 October 2018
Peter Sutton	1,000,000	417,000	417,000	0.417	6 October 2018
<b>Total</b>	<b>1,450,000</b>	<b>611,100</b>	<b>611,100</b>		

300,000 shares awarded to Mark Saus did not qualify and were returned to the Company pending cancellation at the next AGM. 1,000,000 ESPP shares granted to Peter Sutton on 7 October 2015 were returned to the Company upon his resignation on 13 July 2016 pending cancellation at the next AGM.

### Option Holdings of Key Management Personnel

1,200,000 options were granted to Mr Kaplan during the year ended 30 June 2014 as approved by a shareholders' meeting.

### Loans to Key Management Personnel

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

### Other Transactions with Key Management Personnel

During the year the Company paid \$751,557 (incl GST) to entities associated with Key Management Personnel Hadrian Morrall and Brandon Penn for property rental and outgoings, based on normal commercial terms and conditions.

*This concludes the remuneration report, which has been audited.*

## SHARES UNDER OPTION

As at the date of this report (and at the balance date) there were 1,200,000 unissued ordinary shares under options.

Grant date	Expiry date	Exercise price	Number under option
25/06/2014	25/06/2017	\$0.90	1,200,000

The exercise price is \$0.90 from 26 June 2016 to 25 June 2017.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## ROUNDING OF ACCOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) and where noted (\$000's) under the option available to the Company under *ASIC Instrument 2016/191*. The Company is an entity to which that Instrument applies.

## OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF THE AUDITOR

There are no officers of the Company who are former audit partners of UHY Haines Norton, the auditor of the Company.

# Directors' Report

## AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

UHY Haines Norton continues in office in accordance with section 327 of the *Corporations Act 2001*.

During the year ended 30 June 2016, there were no non-audit services provided by the Company's auditors UHY Haines Norton.

The Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* for the year end 30 June 2016 has been received and can be found on page 11 of the financial report.

This Directors' Report is signed in accordance with a resolution of the Board of Directors pursuant to section 298 (2) (a) of the *Corporations Act 2001*.

Signed at Sydney on 27 September 2016.

**Ahmed Fahour**  
*Chairman*

**Elliott Kaplan**  
*Director*

# Auditor's Independence Declaration

under section 307C of the *Corporations Act 2001*



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sydney@uhyhn.com.au  
www.uhyhnsydney.com.au

## To the Directors of Pro-Pac Packaging Limited

As auditor for the audit of Pro-Pac Packaging Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions 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.

**M.D. Nicholaeff**  
Partner

**UHY Haines Norton**  
Chartered Accountants

Signed at Sydney on 27 September 2016.

An association of independent firms in Australia and New Zealand and a member of UHY International, a network of independent accounting and consulting firms.

UHY Haines Norton—ABN 85 140 758 156 NSWBN 98 133 826

Liability limited by a scheme approved under Professional Standards Legislation.

Passion beyond numbers



# Corporate Governance Statement

This Corporate Governance Statement of Pro-Pac Packaging Limited (the 'Company') has been prepared in accordance with the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('*ASX Principles and Recommendations*') and is included in the Company's Annual Report pursuant to ASX Listing Rule 4.10.3. This listing rule requires the Company to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the Company has not followed a recommendation and any related alternative governance practice adopted.

The Company's ASX Appendix 4G, which is a checklist cross-referencing the *ASX Principles and Recommendations* to the relevant disclosures in either this statement, our website or Annual Report, is contained on our website at [www.ppgaust.com.au](http://www.ppgaust.com.au).

Both this Corporate Governance Statement and the ASX Appendix 4G have been lodged with the ASX. This statement has been approved by the Company's Board of Directors ('Board') and is current as at 23 September 2016.

The *ASX Principles and Recommendations* and the Company's response as to how and whether it follows those recommendations are set out below.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

### Recommendation 1.1 - A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

The Company's Board maintains the following roles and responsibilities:

- providing leadership and setting the strategic objectives of the Company;
- appointing the Chair and/or the "senior independent Director";
- appointing, and when necessary replacing, the Chief Executive Officer ('CEO');
- assessing the performance of the CEO and overseeing succession plans for senior executives;
- overseeing management's implementation of the Company's strategic objectives;
- approving operating budgets and major capital expenditure;
- overseeing the integrity of the Company's accounting and corporate reporting systems, including the external audit;
- overseeing the Company's process for market disclosure of all material information concerning the Company that a

reasonable person would expect to have a material effect on the price or value of the Company's securities;

- ensuring that the Company has in place an appropriate risk management framework and setting the risk parameters within which the Board expects management to operate;
- approving the Company's remuneration framework;
- monitoring the effectiveness of the Company's governance practices; and
- reporting to and communications with shareholders.

The Board has delegated the day-to-day management of the Company to the CEO and other senior executives ('management'). The Company's management is responsible for the following:

- being accountable for the performance of the Company;
- implementing the strategic objectives set by the Board;
- operating within the risk parameters set by the Board;
- operational and business management of the Company;
- managing the Company's reputation and operating performance in accordance with parameters set by the Board;
- day-to-day running of the Company;
- providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
- approving capital expenditure (except acquisitions) within delegated authority levels.

Senior executives have their roles and responsibilities defined in specific position descriptions.

### Recommendation 1.2 - A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a Director; and
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a Director.

Before appointing a Director, or putting forward to shareholders a Director for appointment, the Company undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history, qualifications and other appropriate checks.

An election of Directors is held each year. A Director that has been appointed during the year must stand for election at the next Annual General Meeting ('AGM'). Directors are generally appointed for a term of three years. Retiring Directors are not automatically re-appointed.

The Company provides to shareholders for their consideration information about each candidate standing for election or

re-election as a Director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which include experience and qualifications, details of other directorships, adverse information about the person that the Board is aware of including material that may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

**Recommendation 1.3 - A listed entity should have a written agreement with each Director and senior executive setting out the terms of their appointment.**

The terms of the appointment of a non-executive Director are set out in writing and cover matters such as the term of appointment, time commitment envisaged, required committee work and other special duties, requirements to disclose their relevant interests which may affect independence, corporate policies and procedures, indemnities, and remuneration entitlements.

Executive Directors and senior executives are issued with service contracts which detail the above matters as well as the person or body to whom they report, the circumstances in which their service may be terminated (with or without notice), and any entitlements upon termination.

**Recommendation 1.4 - The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.**

The Company Secretary reports directly to the Board through the Chairman and is accessible to all Directors. The Company Secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

- advising the Board and its Committees on governance matters;
- monitoring compliance of the Board and associated committees with policies and procedures;
- coordinating all Board business;
- retaining independent professional advisors;
- ensuring that the business at Board and committee meetings is accurately minuted; and
- assisting with the induction and development of Directors.

**Recommendation 1.5 - A listed entity should:**

- (a) **have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;**
- (b) **disclose that policy or a summary of it; and**

**(c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:**

- (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or**
- (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.**

The Company currently has a formal diversity policy that is monitored at the end of each reporting period. The Company respects people as individuals and values their differences. It is committed to creating a working environment that is fair and flexible, promotes personal and professional growth, and benefits from the capabilities of its diverse workforce. The organisation employs people of each gender as well as with varying skills, cultural backgrounds, ethnicity and experience. The Company believes its diverse workforce is the key to its continued growth, improved productivity and performance.

The Company also maintains a flexible working policy to provide flexible working arrangements including part time and working from home. This is to ensure employees with children are able to continue working and meet their home responsibilities.

The respective proportion of women and men in the Company including its subsidiaries ('consolidated entity') as at 30 June 2016 are as follows:

	Proportion of women	Proportion of men
On the Board	-	100%
In senior executive positions	16%	84%
Across the whole organisation	41%	59%

For this purpose, the Board defines a senior executive as a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the Company's financial standing. This therefore includes all senior management and senior executive designated positions as well as senior specialised professionals.

The Company is a 'relevant employer' for the purposes of the *Workplace Gender Equality Act 2012* on the basis that the entity employs 100 or more employees in Australia. The Company makes annual filings of Gender Equality Indicators

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with the Workplace Gender Equality Agency (WGEA). This information is accessible on <https://www.wgea.gov.au>

## **Recommendation 1.6 - A listed entity should:**

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual Directors; and**
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**

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

## **Recommendation 1.7 - A listed entity should:**

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and**
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.**

The Board conducts an annual performance assessment of the CEO against agreed performance measures determined at the start of the year. The CEO undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the Company.

The CEO provides a report to the Board on the performance of senior executives together with remuneration recommendations which must be approved by the Board after consultation with the Nomination and Remuneration Committee. A review of the CEO and senior executives was undertaken during the year.

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

### **Recommendation 2.1 - The board of a listed entity should:**

- (a) have a nomination committee which:**
  - (1) has at least three members, a majority of whom are independent Directors; and**
  - (2) is chaired by an independent Director,**

**and disclose:**

- (3) the charter of the committee;**
- (4) the members of the committee; and**
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.**

The Board maintains a combined Nomination and Remuneration Committee, whose members during the financial year, were as follows:

Director's name	Executive status	Independence status
Ahmed Fahour <i>Chairman</i>	Non-Executive Director	Independent
Elliott Kaplan	Non-Executive Director	Independent
Dr Gary Weiss	Non-Executive Chairman	Independent
Brandon Penn	Non-Executive Director	Not-independent

The Charter of the Committee is available at the Company's website. It details the roles and responsibilities of the Committee.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of Directors' section of the Directors' report.

### **Recommendation 2.2 - A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.**

The Board's skills matrix indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. It is therefore used when recruiting new Directors and assessing which skills need to be outsourced based on the attributes of the current Board members. The existence of each attribute is assessed by the Board as either, High, Medium or Low.

Skill category	Description of attributes required	Level of importance	Existence in current Board
Risk and compliance	Identification of key risks to the Company related to each key area of operations. Monitoring of risks, satisfy compliance issues and knowledge of legal and regulatory requirements.	High	High
Financial and audit	Analysis and interpretation of accounting and finance issues including assessment and resolution of audit and financial reporting risks, contribution to budgeting and financial management of projects and company, assessing and supervising capital management.	High	High
Strategic	Development of strategies to achieve business objectives, oversee implementation and maintenance of strategies, and identification and critical assessment of strategic opportunities and threats to the Company.	High	High
Operating policies	Key issue identification representing operational and reputational risks and development of policy responses and parameters within which the Company should operate.	Medium	Medium
Information technology	Knowledge of IT governance including privacy, data management and security.	Medium	Medium
Executive management	Performance assessments of senior executives, succession planning for key executives, setting of key performance hurdles, experience in industrial relations and organisational change management programmes.	High	High
Age and gender	Board aims for equal gender representation and range of experienced individuals to contribute towards better Board outcomes.	Medium	Medium

The Board currently believes that its membership adequately represents the required skills as set out in the matrix and therefore does not intend to seek any new or alternative candidates. External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

In addition to the specific areas that are required at Board level identified the matrix above, all members of the Board are assessed for the following attributes before they are considered an appropriate candidate.

#### Board Member Attributes

Leadership	Represents the Company positively amongst stakeholders and external parties; decisively acts ensuring that all pertinent facts considered; leads others to action; proactive solution seeker.
Ethics and integrity	Awareness of social, professional and legal responsibilities at individual, company and community level; ability to identify independence conflicts; applies sound professional judgement; identifies when external counsel should be sought; upholds Board confidentiality; respectful in every situation.
Communication	Effective in working within defined corporate communications policies; makes constructive and precise contribution to the Board both verbally and in written form; an effective communicator with executives.
Negotiation	Negotiation skills which engender stakeholder support for implementing Board decisions.
Corporate governance	Experienced Director that is familiar with the mechanisms, controls and channels to deliver effective governance and manage risks.

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## Recommendation 2.3 - A listed entity should disclose:

- (a) the names of the Directors considered by the Board to be independent Directors;
- (b) if a Director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the Director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
- (c) the length of service of each Director.

The Board assesses annually the independence of each Director to ensure that those designated as independent do not have any alliance to the interests of management, substantial shareholders or other relevant stakeholders. They must be free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the Company and its security holders generally.

Details of the Board of Directors, their appointment dated, length of service as independence status is as follows:

Director's name	Appointment date	Length of service at reporting date	Independence status
Ahmed Fahour	28 March 2014	2 years and 3 months	Independent Non-executive
Elliott Kaplan	1 March 2005	11 years and 8 months	Independent Non-executive
Brandon Penn	16 August 2007	9 years and 1 month	Not-independent Substantial shareholder
Gary Weiss	28 May 2012	4 years and 4 months	Independent Non-executive

The Board may determine that a Director is independent notwithstanding the existence of an interest, position, association or relationship of the kind identified in the examples listed under Recommendation 2.3 of the *ASX Principles and Recommendations*.

As part of its independence assessment, the Board considers the length of time that the Director has been on the Board, as a prolonged service period may also be seen to impair independence. The Board concluded that no non-executive Director has been on the Board for a period which could be seen to compromise their independence.

Where it is determined that a non-executive Director should no longer be considered independent, the Company shall make an announcement to the market.

## Recommendation 2.4 - A majority of the board of a listed entity should be independent Directors.

Having regard to the response to Recommendation 2.3 above, the majority of the Board at the reporting date were independent.

## Recommendation 2.5 - The chair of the board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.

Ahmed Fahour is Chair of the Board and is considered to be an independent Director of the Company. Peter Sutton was the Chief Executive Officer until 13 July 2016 and was succeeded by Brandon Penn on that date as Acting Chief Executive Officer.

## Recommendation 2.6 - A listed entity should have a program for inducting new Directors and provide appropriate professional development opportunities for Directors to develop and maintain the skills and knowledge needed to perform their role as Directors effectively.

New Directors undertake an induction program coordinated by the Company Secretary on behalf of the Nomination and Remuneration Committee. The program includes strategy briefings, explanations of company policies and procedures, governance frameworks, cultures and values, company history, director and executive profiles and other pertinent company information.

## PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

### Recommendation 3.1 - A listed entity should:

- (a) have a code of conduct for its Directors, senior executives and employees; and
- (b) disclose that code or a summary of it.

The Company maintains a code of conduct. The purpose of the Code of Conduct is to guide all employees, including Directors as to:

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



The overriding principle is that all business affairs of the Company must be conducted legally, ethically and with strict

observance of the highest standards of propriety and business ethics. If there are any doubts as to how to respond to a particular circumstance, Directors and employees are encouraged to consult with the Chairman or Company Secretary and, if necessary, seek external professional advice.

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

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

### **Recommendation 4.1 - The board of a listed entity should:**

#### **(a) have an audit committee which:**

- (1) has at least three members, all of whom are non-executive Directors and a majority of whom are independent Directors; and**
- (2) is chaired by an independent Director, who is not the chair of the board,**  
**and disclose:**
  - (3) the charter of the committee;**
  - (4) the relevant qualifications and experience of the members of the committee; and**
  - (5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**

#### **(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.**

To assist in the execution of its responsibilities, the Board has established an Audit and Risk Committee. A summary of the Charter setting out the Committee's responsibilities is posted on the Company's website.

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

This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of

operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

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

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

Recommendation 4.1 requires that the composition of Audit Committee comprises a majority of independent Directors and that the committee have at least three members. The Company does not, given its size and the size of its Board, satisfy this requirement although both members are independent.

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

### **Recommendation 4.2 - The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.**

In relation to the financial statements for the financial year ended 30 June 2016 and the half-year ended 31 December 2015, the Company's CEO and CFO have provided the Board with declarations, that in their opinion:

- the financial records of the Company have been properly maintained;
- the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company; and
- has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

### **Recommendation 4.3 - A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.**

The engagement partner for the Company's audit attends the

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AGM and is available to answer shareholder questions from shareholders relevant to the audit.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

### Recommendation 5.1 - A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
- (b) disclose that policy or a summary of it.

Consistent with *ASX Principle 5*, the Board aims to ensure that all investors have equal and timely access to material information concerning the Company, that there is compliance with continuous disclosure requirements and that announcements made by the Company are factual and presented in a clear and balanced way. The Company has adopted an External Communications Policy reflecting the principles set out in *ASX Principle 5*. This policy has been placed on the Company's website.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

### Recommendation 6.1 - A listed entity should provide information about itself and its governance to investors via its website.

The Company maintains information in relation to governance documents, directors and senior executives, Board and committee charters, annual reports, ASX announcements and contact details on the Company's website.

### Recommendations 6.2 and 6.3

**A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors (6.2).**

**A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders (6.3).**

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

A representative from the auditors of the Company attends the annual general meeting and any other meeting as required by the Board and is available to answer shareholder questions about the conduct of the audit and preparation and content of the auditor's report. Shareholders are given the opportunity to raise questions with any of the Directors at shareholder meetings, both formally and informally.

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

### Recommendation 6.4 - A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

This option is available to security holders.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

### Recommendations 7.1 and 7.2

#### The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
  - (1) has at least three members, a majority of whom are independent Directors; and
  - (2) is chaired by an independent Director, and disclose:
    - (3) the charter of the committee;
    - (4) the members of the committee; and
    - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework (7.1).

The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place (7.2).

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

are disclosed in the Directors' Report. The Audit Committee has reviewed the Company's risk management framework during the reporting period.

In performing this function, the Committee receives periodic reports from the Group's Risk Committee (comprising key stakeholders from the management team and the Group's insurance advisers), external auditor and, in some instances, external consultants detailing compliance with statutory requirements and the adequacy of the risk management programs and systems in place. In addition, the Committee reviews the adequacy of the group's insurance program. In line with *ASX Principle 7*, the Company adopted the policy requiring the Chief Executive Officer and Chief Financial Officer to confirm in writing that, to the best of their knowledge, the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which operates efficiently and effectively in all material respects. The board has received the relevant declarations on 23 September 2016.

**Recommendation 7.3 - A listed entity should disclose:**

- (a) if it has an internal audit function, how the function is structured and what role it performs; or**
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.**

The Company does not have an internal audit function. 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.

**Recommendation 7.4 - A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.**

The management of the Company and the execution of its growth strategies are subject to a number of risks which could adversely affect the Company's future development. The following is not an exhaustive list or explanation of all risks and uncertainties associated with the Company (and its subsidiaries), but those considered by management to be the principal material risks:

**Financial risk**

The Company is exposed to financial risks such as foreign currency risk and interest rate risk. Refer to the 'Financial Instrument' note to the financial statements for further information on these risks and how they are managed.

**Loss of people**

The Company's senior executive team is instrumental in implementing the Company's strategies and executing business plans which support the business operations and growth. Service agreements are in place and the risk of the loss of key personnel is mitigated by regular reviews of remuneration packages (including short and long term incentive schemes) and succession planning within the team.

Refer to commentary at Recommendations 7.1 and 7.2 for information on the Company's risk management framework.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

**Recommendation 8.1 - The board of a listed entity should:**

- (a) have a remuneration committee which:**
  - (1) has at least three members, a majority of whom are independent Directors; and**
  - (2) is chaired by an independent Director, and disclose:**
  - (3) the charter of the committee;**
  - (4) the members of the committee; and**
  - (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or**
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for Directors and senior executives and ensuring that such remuneration is appropriate and not excessive.**

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

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The Board has in place a Remuneration Committee to assist the Board in relation to human resources issues affecting the Pro-Pac Group. The structure of this Committee and its responsibilities reflect in part the requirements of *ASX Principle 8*. The Committee comprises Messrs Fahour (Chairman) and Kaplan and Dr Weiss all of whom are independent Directors. Mr Penn joined the Committee after he relinquished his executive position. In addition to the members, the Chief Executive is invited to the meetings at the discretion of the Committee. Refer schedule of meetings of Directors on page 4.

A charter setting out the responsibilities of the Committee has been adopted and a summary of this charter is posted on the Company's website.

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

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

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

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

Details of the Directors and key executives remuneration are set out in the Directors' Report as is the number of times that the Remuneration Committee met during the year.

**Recommendation 8.2 - A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives.**

Non-executive Directors are remunerated by way of cash fees and superannuation contributions. The level of remuneration reflects the anticipated time commitments and responsibilities of the position. Performance based incentives are not available to non-executive Directors as it could be perceived to impair their independence in decision making. For the same reason, equity based remuneration is limited to non-performance based instruments such as shares.

Executive Directors and other senior executives are remunerated using combinations of fixed and performance based remuneration. Fees and salaries are set at levels reflecting market rates having regard to the individual's performance and responsibilities. Performance based remuneration is linked directly to specific performance targets that are aligned to both short and long term objectives. Share options and rights are aligned to longer term performance hurdles. Termination payments are detailed in individual contracts and payable on early termination with the exclusion of termination in the event of misconduct.

Further details in relation to the Company's remuneration policies are contained in the Remuneration Report, within the Directors' report.

**Recommendation 8.3 - A listed entity which has an equity-based remuneration scheme should:**

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and**
- (b) disclose that policy or a summary of it.**

The Company operates an Executive Long Term Incentive Plan to encourage employees to share ownership of the Company and promote long-term success of the Company as a goal shared by the employees. Please see the Directors' Report for further details of the plan.

# Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 30 June 2016

	Notes	Consolidated 2016 \$000's	Consolidated 2015 \$000's
<b>Revenue</b>			
Sale of goods		240,774	243,457
Other income		-	340
Interest income		166	83
<b>Total Revenue</b>		<b>240,940</b>	<b>243,880</b>
<b>Expenses</b>			
Raw materials and consumables used		162,512	164,813
Employee benefits expense		33,521	33,814
Other expenses from ordinary activities		12,150	12,322
Distribution costs		9,806	9,636
Occupancy costs		7,479	8,002
Depreciation expense	13	3,353	3,261
Finance costs		1,482	1,764
Acquisition, rationalisation and relocation expenses		489	1,519
Amortisation of prepaid royalty	16	28	322
<b>Total Expenses</b>		<b>230,820</b>	<b>235,453</b>
<b>Profit before income tax from continuing operations</b>		<b>10,120</b>	<b>8,427</b>
Income tax expense	6	(3,182)	(2,585)
<b>Profit after income tax expense for the year</b>		<b>6,938</b>	<b>5,842</b>
<b>Other comprehensive income</b>			
Items that will be reclassified to profit and loss			
Movements in reserves		(1,214)	710
<b>Total comprehensive income for the year</b>		<b>5,724</b>	<b>6,552</b>
Earnings per share (cents per share)			
- Basic earnings per share	7	3.01	2.60
- Diluted earnings per share	7	2.95	2.56

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



# Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	Consolidated 30 June 2016 \$000's	Consolidated 30 June 2015 \$000's
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	15,345	6,120
Trade and other receivables	11	36,772	38,506
Inventories	12	33,112	32,393
Current tax assets	6	80	15
Derivative financial asset	25	-	710
Other assets	16	4,332	3,841
<b>Total current assets</b>		<b>89,641</b>	<b>81,585</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	15,831	17,366
Intangible assets	14	70,721	70,337
Deferred tax assets	15	2,068	2,520
<b>Total non-current assets</b>		<b>88,620</b>	<b>90,223</b>
<b>TOTAL ASSETS</b>		<b>178,261</b>	<b>171,808</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	29,509	26,628
Derivative financial liability	25	504	-
Interest bearing trade finance	18	3,000	2,551
Interest bearing borrowings	18	1,156	1,183
Provisions	19	3,941	3,973
<b>Total current liabilities</b>		<b>38,110</b>	<b>34,335</b>
<b>Non-current liabilities</b>			
Provisions	19	1,683	1,801
Interest bearing borrowings	18	27,104	27,271
<b>Total non-current liabilities</b>		<b>28,787</b>	<b>29,072</b>
<b>TOTAL LIABILITIES</b>		<b>66,897</b>	<b>63,407</b>
<b>NET ASSETS</b>		<b>111,364</b>	<b>108,401</b>
<b>EQUITY</b>			
Issued capital	20	96,304	92,726
Other reserves	21	(343)	830
Retained earnings	22	15,403	14,845
<b>TOTAL EQUITY</b>		<b>111,364</b>	<b>108,401</b>

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

# Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	Consolidated 2016 \$000's	Consolidated 2015 \$000's
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		243,281	241,220
Payments to suppliers and employees (inclusive of GST)		(224,552)	(229,852)
Interest received		166	83
Finance costs		(1,482)	(1,219)
Income tax paid		(2,771)	(3,309)
Relocation, restructuring and business combination costs		(489)	(1,519)
<b>Net cash flows provided by operating activities</b>	10	<b>14,153</b>	<b>5,404</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(1,980)	(3,666)
Proceeds from sale of property, plant and equipment		176	799
Payments for unincorporated businesses net of cash acquired		(502)	(2,150)
Working capital for businesses acquired		(75)	(1,597)
<b>Net cash flows (used) in investing activities</b>		<b>(2,381)</b>	<b>(6,614)</b>
<b>Cash flows from financing activities</b>			
Payment of hire purchase and finance lease liabilities		(1,533)	(1,976)
Finance leases raised		1,339	1,683
Proceeds from borrowing		449	7,397
Dividend paid		(2,802)	(3,354)
<b>Net cash flows provided by financing activities</b>		<b>(2,547)</b>	<b>3,750</b>
Net increase/(decrease) in cash and cash equivalents		9,225	2,540
Cash and cash equivalents at beginning of financial year		6,120	3,580
<b>Cash and cash equivalents at end of financial year</b>	9	<b>15,345</b>	<b>6,120</b>
<b>Non-cash financing transactions</b>			
Hire purchase and finance lease liabilities raised		1,339	1,683
Issue of shares for dividend re-investment plan		3,578	1,178

*The above statements of cash flows should be read in conjunction with the accompanying notes.*

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Issued capital \$000's	Retained earnings \$000's	Reserves \$000's	Total equity \$000's
<b>Consolidated</b>				
<b>Balance as at 1 July 2014</b>	<b>91,548</b>	<b>13,536</b>	<b>99</b>	<b>105,183</b>
Profit after income tax expense for the year	-	5,842	-	5,842
Other comprehensive income for the year, net of tax	-	-	710	710
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>5,842</b>	<b>710</b>	<b>6,552</b>
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares for dividend re-investment plan	1,178	-	-	1,178
Recognition of share based payment	-	-	21	21
Dividends paid	-	(4,533)	-	(4,533)
<b>At 30 June 2015</b>	<b>92,726</b>	<b>14,845</b>	<b>830</b>	<b>108,401</b>
<b>Consolidated</b>				
<b>Balance as at 1 July 2015</b>	<b>92,726</b>	<b>14,845</b>	<b>830</b>	<b>108,401</b>
Profit after income tax expense for the year	-	6,938	-	6,938
Other comprehensive income for the year, net of tax	-	-	(1,214)	(1,214)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>6,938</b>	<b>(1,214)</b>	<b>5,724</b>
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares for dividend re-investment plan	3,578	-	-	3,578
Recognition of share based payment	-	-	41	41
Dividends paid	-	(6,380)	-	(6,380)
<b>At 30 June 2016</b>	<b>96,304</b>	<b>15,403</b>	<b>(343)</b>	<b>111,364</b>

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

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 1: CORPORATE INFORMATION

The financial report of Pro-Pac Packaging Limited and its subsidiaries ("the Group") for the year ended 30 June 2016 was approved for issue in accordance with a resolution of the Directors on 23 September 2016.

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

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

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

### (b) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the requirements of the *Corporations Act 2001*. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial report has been prepared on an accruals basis and unless otherwise stated is based on historical costs. The financial report is presented in Australian dollars.

### (c) Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

### (d) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pro-Pac Packaging Limited ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Pro-Pac Packaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### (e) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

allocation of resources to operating segments and assessing their performance.

### (f) Foreign currency translation

The financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

#### Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

### (g) Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

#### Sale of goods

Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer. Amounts disclosed as revenue are net of sales returns and trade discounts.

#### Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

### (h) Business combinations

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

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

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

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

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

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

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair



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

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

#### (i) Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Plant and equipment is depreciated using the straight line and diminishing value methods over the estimated useful lives.

Depreciation rates used for each class of assets vary to the estimated useful lives at the time of acquisition, and are typically:

Class of fixed asset/method	Depreciation rates
Plant and equipment Method: Straight-line and diminishing value	3% - 50%
Motor vehicles Method: Straight-line and diminishing value	7% - 30%
Computer equipment Method: Straight-line and diminishing value	10% - 40%
Furniture and Fittings Method: Straight-line and diminishing value	5% - 25%
Office equipment Method: Straight-line and diminishing value	5% - 33%

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

#### (j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and

requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the Company substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

#### (k) Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### (l) Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (m) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost in relation to work in progress and finished goods comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

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

### (n) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

#### Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### (o) Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30-60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired.

Other receivables are recognised at amortised cost, less any provision for impairment.

### (p) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### (q) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

**(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30-60 days of recognition.

**(s) Borrowings**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**(t) Finance costs**

Finance costs are expensed in the period in which they are incurred, including:

- interest on the bank overdraft
- interest on short-term and long-term borrowings
- interest on finance leases
- unwinding of the discount on provisions

**(u) Provisions**

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability.

**(v) Income tax**

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a

transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or

- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Pro-Pac Packaging Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

### (w) Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

### (x) Employee benefits

#### Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and

periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### Share-based payments

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation.

### (y) Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based



on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

#### **(z) Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### **(aa) Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

#### **(bb) Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement. They are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

#### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mismatch. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

#### **Impairment of financial assets**

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

#### **(cc) Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

#### **Share-based payment transactions**

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

#### **Provision for impairment of receivables**

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

#### **Provision for impairment of inventories**

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

#### **Estimation of useful lives of assets**

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result



# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

### Goodwill

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

### Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

### Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

### Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires

assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

### Business combinations

Business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

## (dd) Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## (ee) Rounding of amounts

The Company is of a kind referred to in *ASIC Instrument 2016/191* (issued in 2016), and in accordance with that instrument all financial information presented in AUD has been rounded to the nearest one thousand dollars (\$000's), unless otherwise stated.

## (ff) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

### **AASB 9 Financial Instruments**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

### **AASB 15 Revenue from Contracts with Customers**

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for

promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

### **AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by the consolidated entity.

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 3: RECLASSIFICATION OF COMPARATIVES

Bank line fees, usage fees and facility establishment fees were incorrectly included in "Other expenses from ordinary activities" instead of "Finance costs" in the consolidated entity's financial statements for the year ended 30 June 2015. As such, earnings before interest, taxes, depreciation and amortisation (EBITDA) for the year ended 30 June 2015 was understated by \$545,000. The relevant comparative numbers for the year ended 30 June 2015 have accordingly been reclassified. Profit before and after income tax expense for the year ended 30 June 2015 remains unchanged. Bank line fees, usage fees and facility establishment fees are included in "Finance costs" in the financial statements for the year ended 30 June 2016.

## NOTE 4: OPERATING SEGMENTS

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

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

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

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

### Types of products and services by segment

#### Industrial packaging

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

#### Rigid packaging

The Rigid packaging division manufactures, sources and distributes containers and closures and related products and services. All products produced or distributed are aggregated as one reportable segment as the products are similar in nature and are manufactured and distributed to similar types of customers.

## Basis of accounting for purposes of reporting by operating segments

### Accounting policies adopted

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

### Inter-segment transactions

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

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. All inter-segment loans payable and receivable are eliminated on consolidation for the Group's financial statements.

### Segment Assets

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

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

### Segment Liabilities

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

### Unallocated items

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

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

	Rigid packaging \$000's 2016	Industrial packaging \$000's 2016	Intersegment eliminations /unallocated \$000's 2016	Total \$000's 2016	Rigid packaging \$000's 2015	Industrial packaging \$000's 2015	Intersegment eliminations /unallocated \$000's 2015	Total \$000's 2015
<b>(i) Segment performance</b>								
<i>12 months ended 30 June</i>								
<b>Revenue</b>								
External sales	65,615	175,159	-	240,774	60,441	183,016	-	243,457
Inter-segment sales	8,754	7,827	(16,581)	-	8,594	7,648	(16,242)	-
<b>Total segment revenue</b>	<b>74,369</b>	<b>182,986</b>	<b>(16,581)</b>	<b>240,774</b>	<b>69,035</b>	<b>190,664</b>	<b>(16,242)</b>	<b>243,457</b>
<b>EBITDA</b>								
Depreciation and amortisation	(1,496)	(1,697)	(188)	(3,381)	(1,618)	(1,736)	(229)	(3,583)
Interest revenue				166				83
Finance costs				(1,482)				(1,764)
<b>Profit before income tax</b>				<b>10,120</b>				<b>8,427</b>
Income tax expense				(3,182)				(2,585)
<b>Profit after income tax</b>				<b>6,938</b>				<b>5,842</b>
<b>(ii) Segment assets</b>								
<i>As at 30 June</i>								
<b>Segment assets</b>	<b>46,844</b>	<b>115,788</b>	<b>-</b>	<b>162,632</b>	<b>47,437</b>	<b>117,297</b>	<b>-</b>	<b>164,734</b>
<i>Reconciliation of segment assets to group assets</i>								
Inter-segment eliminations				(1,870)				(1,634)
Unallocated assets				17,499				8,708
- Deferred tax assets				2,068				2,520
- Other				15,431				6,188
<b>Total group assets from continuing operations</b>				<b>178,261</b>				<b>171,808</b>
<b>(iii) Segment liabilities</b>								
<i>As at 30 June</i>								
<b>Segment liabilities</b>	<b>13,216</b>	<b>29,356</b>	<b>-</b>	<b>42,572</b>	<b>12,948</b>	<b>26,331</b>	<b>-</b>	<b>39,279</b>
<i>Reconciliation of segment liabilities to group liabilities</i>								
Inter-segment eliminations				(1,866)				(1,722)
Unallocated liabilities				26,191				25,850
- Deferred tax liabilities				-				-
- Other liabilities				26,191				25,850
<b>Total group liabilities from continuing operations</b>				<b>66,897</b>				<b>63,407</b>

**(iv)** Pro-Pac Packaging Limited has an operation, PPG Services SDN BHD, which is a company incorporated in Malaysia. This company provides support services for all Group companies. The financial statements for this company are prepared under Malaysian Financial Reporting Standards, which are compliant with International Financial Reporting Standards.

# Notes to the Financial Statements

For the year ended 30 June 2016

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 5: EXPENSES

Profit before income tax includes the following expenses:

Superannuation expense	2,792	2,845
Bad and doubtful debts – trade	150	389
Rental expense on operating leases: - minimum lease payments	6,926	7,426

## NOTE 6: INCOME TAX

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

### Current income tax

Current income tax charge	2,730	2,729
Adjustments in respect of previous years	-	-
Adjustments in respect of permanent differences	148	59

### Deferred income tax

Relating to temporary differences	304	(203)
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<b>Income tax expense in statement of profit or loss and other comprehensive income</b>	<b>3,182</b>	<b>2,585</b>
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A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 30 June 2016 is as follows:

Accounting profit before tax	10,120	8,427
At the statutory income tax rate of 30%	3,036	2,528
Which is adjusted by the tax effect of:		
Different rates of tax on overseas income	(2)	(2)
Adjustments in respect of permanent differences	148	59
At effective income tax rate of 30.7% (2016: 30.0%)	3,182	2,585
<b>Income tax expense reported in statement of profit or loss and other comprehensive income</b>	<b>3,182</b>	<b>2,585</b>

### Tax consolidation

The Financial report has been prepared on the basis that the Group has adopted the provisions of the tax consolidation regime for the years ended 30 June 2016 and 30 June 2015.

<b>Current tax asset</b>	<b>80</b>	<b>15</b>
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## NOTE 7: EARNINGS PER SHARE

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

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

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
Net profit attributable to equity holders (\$000's)	6,938	5,842
Weighted average number of ordinary shares for basic earnings per share	230,470,499	224,290,226
Basic earnings per share (cents per share) *	3.01	2.60
Diluted earnings per share (cents per share) *	2.95	2.56

\* The difference between basic and diluted shares on issue represents the PPG Executive Long Term Incentive Plan (ESPP) shares on issue which are treated as an option grant.

## NOTE 8: DIVIDENDS PAID AND PROPOSED

On 26 August 2016, the Company declared a fully franked final dividend of 1.5 cents per share. The record date for determining entitlements to the dividend is 8 September 2016 and the dividend will be paid on 22 September 2016. The Company's Dividend Reinvestment Plan will apply to the final dividend. No discount will apply to the issue price. When combined with PPG's interim dividend of 1.25 cents, paid on 19 May 2016, this brings total fully franked dividends for the 2015/16 financial year to 2.75 cents per share.

	2016 \$000's	2015 \$000's
<b>Declared and paid during the year:</b>		
Final dividend for 2015 – 1.5 cents per ordinary share (2014 – 1 cent per ordinary share)	3,427	2,267
Interim dividend for 2016 – 1.25 cents per ordinary share (2015 – 1 cent per ordinary share)	2,953	2,266
	6,380	4,533
 Proposed for approval at the Directors Meeting (not recognised as a liability as at 30 June)		
Final dividend for 2016 – 1.5 cents per ordinary share (2015 – 1.5 cents per ordinary share)	3,606	3,436
 <b>Franking credits</b>		
Franking credits available for subsequent financial years based on a tax rate of 30%	15,372	15,334

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

# Notes to the Financial Statements

For the year ended 30 June 2016

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 9: CASH AND CASH EQUIVALENTS

<b>Cash at bank and in hand</b>	<b>15,345</b>	<b>6,120</b>
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Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates

### Reconciliation of cash

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

<b>Cash at bank and in hand</b>	<b>15,345</b>	<b>6,120</b>
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## NOTE 10: CASH FLOW INFORMATION

### a) Reconciliation from the net profit after tax to the net cash flows from operations

Net profit after tax	6,938	5,842
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#### Add/(Less) non-cash items:

Depreciation and amortisation of plant and equipment	3,353	3,261
Amortisation of pre paid royalty	28	322
(Profit)/Loss on disposal of assets	20	63
Movement in income tax provision	(65)	(579)
Movement in deferred tax assets and liabilities	452	(144)
Movement in provision for bad debts	(244)	92
Other non-cash movements	76	21

#### Changes in assets and liabilities:

Receivables	2,206	(1,546)
Inventories	(583)	2,884
Payables	2,703	(4,276)
Provisions	(212)	201
Prepayments	(519)	(737)

<b>Net cash flows from operating activities</b>	<b>14,153</b>	<b>5,404</b>
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### b) Non-cash financing and investing activities

During the year, the Group acquired plant with an aggregate value of \$1,339,233 (2015: \$1,682,635) by means of finance leases.

### c) Credit standby arrangements with banks

<b>Credit facility</b>	<b>1,500</b>	<b>1,500</b>
Amount utilised	-	-

<b>Loan facilities</b>	<b>44,700</b>	<b>44,700</b>
Amount utilised	33,627	33,159

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 11: TRADE AND OTHER RECEIVABLES

### Current:

Trade receivables	35,767	37,626
Provision for impairment of receivables	(358)	(602)
Other debtors	1,363	1,482
<b>Total current receivables</b>	<b>36,772</b>	<b>38,506</b>

Movements in the provision for impairment of receivables are as follows:

Opening balance	(602)	(510)
Reduction/(addition) to the provision	94	(481)
Receivables written off during the year as uncollectable	150	389
<b>Closing balance</b>	<b>(358)</b>	<b>(602)</b>

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

### Credit risk – Trade and Other Receivables

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

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

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

	Gross amount \$000's	Past due and impaired \$000's	Past due but not impaired > 90 \$000's	Past due but not impaired 61 - 90 \$000's	Within initial trade terms \$000's
<b>Consolidated 2016</b>					
Trade and term receivables	35,767	358	90	1,879	33,440
Other receivables	1,363	-	-	-	1,363
<b>Total</b>	<b>37,130</b>	<b>358</b>	<b>90</b>	<b>1,879</b>	<b>34,803</b>
<b>2015</b>					
Trade and term receivables	37,626	602	77	1,432	35,515
Other receivables	1,482	-	-	-	1,482
<b>Total</b>	<b>39,108</b>	<b>602</b>	<b>77</b>	<b>1,432</b>	<b>36,997</b>

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired. The consolidated entity did not consider a credit risk on the aggregate balance that are past due but not impaired based on recent collection practices.

# Notes to the Financial Statements

For the year ended 30 June 2016

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 12: INVENTORIES

Raw materials	1,071	1,225
Finished goods	32,041	31,168
<b>Total inventories</b>	<b>33,112</b>	<b>32,393</b>

## NOTE 13: PROPERTY, PLANT AND EQUIPMENT

### At 30 June

Plant and equipment		
At cost	33,119	31,749
Accumulated depreciation	(17,288)	(14,383)
<b>Total property, plant and equipment</b>	<b>15,831</b>	<b>17,366</b>

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

	Plant and Equipment	Motor Vehicles	Computer Equipment	Furniture & Fittings	Office Equipment	Leasehold Improvement	Total
	2016 \$000's	2016 \$000's	2016 \$000's	2016 \$000's	2016 \$000's	2016 \$000's	2016 \$000's
Balance at the beginning of the year	13,509	1,748	552	397	546	614	17,366
Additions arising from business acquisitions during the year	-	26	-	-	-	-	26
Additions	1,245	295	253	59	102	-	1,954
Make good provision capitalised	-	-	-	-	-	28	28
Disposals	(30)	(128)	-	(3)	(8)	(21)	(190)
Depreciation charge for the year	(2,150)	(492)	(314)	(60)	(111)	(226)	(3,353)
<b>Carrying amount at the end of the year</b>	<b>12,574</b>	<b>1,449</b>	<b>491</b>	<b>393</b>	<b>529</b>	<b>395</b>	<b>15,831</b>

	2015 \$000's	2015 \$000's	2015 \$000's	2015 \$000's	2015 \$000's	2015 \$000's	2015 \$000's
Balance at the beginning of the year	13,329	2,195	674	362	402	420	17,382
Additions arising from business acquisitions during the year	75	54	7	-	11	-	147
Additions	2,829	332	214	136	155	-	3,666
Make good provision capitalised	-	-	-	-	-	285	285
Disposals	(610)	(226)	-	(11)	(6)	-	(853)
Reclassification	(29)	(38)	-	(1)	68	-	-
Depreciation charge for the year	(2,085)	(569)	(343)	(89)	(84)	(91)	(3,261)
<b>Carrying amount at the end of the year</b>	<b>13,509</b>	<b>1,748</b>	<b>552</b>	<b>397</b>	<b>546</b>	<b>614</b>	<b>17,366</b>

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 14: INTANGIBLE ASSETS

### Goodwill

Carrying amount at beginning of the year	70,337	68,793
Acquisition through business combinations	384	1,544
<b>Closing value</b>	<b>70,721</b>	<b>70,337</b>
<b>At 30 June</b>		
Gross	70,721	70,337
Accumulated impairment losses	-	-
<b>Net carrying value</b>	<b>70,721</b>	<b>70,337</b>

### Impairment Test for Goodwill

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

The recoverable amount of the cash generating unit has been determined based on a value-in-use calculation. Based on the value-in-use calculations undertaken by management, Goodwill has not been impaired (see note 29).

## NOTE 15: DEFERRED TAX ASSETS

### Deferred tax assets

Deferred tax assets comprise:

Provisions and other timing differences	2,059	2,424
Transactions costs on equity issue	9	96
<b>Closing balance</b>	<b>2,068</b>	<b>2,520</b>

### Reconciliation of gross movements

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

Opening balance	2,520	2,376
Other permanent differences brought to account	(148)	(59)
Charge to statement of comprehensive income	(304)	203
<b>Closing balance</b>	<b>2,068</b>	<b>2,520</b>

### Deferred tax assets

The movement in deferred tax assets for each temporary difference during the year is as follows:

<b>Provisions and other timing differences at 1 July</b>	<b>2,424</b>	<b>2,242</b>
Reclassification	33	-
Credit/(charge) to statement of comprehensive income	(398)	182
<b>At 30 June</b>	<b>2,059</b>	<b>2,424</b>
<b>Transaction cost to equity issue at 1 July</b>	<b>96</b>	<b>134</b>
Tax effect of share issue cost	6	33
Reclassification	(33)	-
Charge to statement of comprehensive income	(60)	(71)
<b>At 30 June</b>	<b>9</b>	<b>96</b>



# Notes to the Financial Statements

For the year ended 30 June 2016

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 16: OTHER ASSETS

### Current assets

Other prepayments	4,332	3,813
Prepaid royalty	-	28
<b>Total current assets</b>	<b>4,332</b>	<b>3,841</b>

### Prepayment of royalty

The prepayment of the royalty is amortised over the remaining period of the exclusive licence to manufacture and distribute biodegradable flowable void fill products. The prepaid royalty amortised for the year ended 30 June 2016 amounted to \$28,261 (2015: \$322,082).

## NOTE 17: TRADE AND OTHER PAYABLES

### Current

Unsecured:		
Trade payables	21,391	18,202
GST payable	580	716
Other tax payable	358	524
Sundry creditors and accruals	7,065	7,131
Contingent deferred payments to vendors for acquisitions	115	55
<b>Total</b>	<b>29,509</b>	<b>26,628</b>

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

## NOTE 18: INTEREST BEARING LOANS AND BORROWINGS

### Current

Finance lease and hire purchase (see note 24)	1,156	1,183
Trade Finance	3,000	2,551
<b>Total</b>	<b>4,156</b>	<b>3,734</b>

### Non-current

Finance lease and hire purchase (see note 24)	1,604	1,771
Bank loan (secured)	25,500	25,500
<b>Total</b>	<b>27,104</b>	<b>27,271</b>

- a) The bank loan and trade finance facilities are secured as follows:
  - i) first ranking registered equitable mortgage over the Company and all wholly owned subsidiaries; and
  - ii) cross interlocking guarantees from the Company and all wholly owned subsidiaries.
- b) In respect of the 2016 financial year, the bank loan is subject to the following covenants on a 12 month rolling basis:
  - i) the Interest Coverage Ratio for the Group will at all times be greater than 4.00:1;
  - ii) the Gross Leverage Ratio for the Group will at all times not be greater than 3.00:1; and
  - iii) the Net Tangible Asset Cover Ratio for the Group will at all times be greater than 1.50:1.
- c) The Company undertakes to the bank that any dividends or distribution payments paid to shareholders or members for a financial year will not exceed more than 70% of net profit after tax for that financial year.
- d) The bank loan facility is subject to review on 30 September 2017.

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
<b>NOTE 19: PROVISIONS</b>		
<b>Current</b>		
Employee entitlements		
Opening balance	3,973	3,705
Arising on acquisition of business combinations	7	57
Additional provisions	2,270	2,508
Amount used	(2,309)	(2,297)
<b>Closing balance</b>	<b>3,941</b>	<b>3,973</b>
<b>Non-current</b>		
Employee entitlements		
Opening balance	912	773
Arising on acquisition of business combinations	12	149
Additional provisions	271	229
Amount used	(450)	(239)
<b>Closing balance</b>	<b>745</b>	<b>912</b>
Make good provision		
Opening balance	889	603
Additional provisions	49	286
<b>Closing balance</b>	<b>938</b>	<b>889</b>
Total non-current provisions		
Opening balance	1,801	1,376
Arising on acquisition of business combinations	12	149
Additional provisions	320	515
Amount used	(450)	(239)
<b>Closing balance</b>	<b>1,683</b>	<b>1,801</b>

*Amounts not expected to be settled within the next 12 months.*

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

# Notes to the Financial Statements

For the year ended 30 June 2016

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 20: ISSUED CAPITAL

### Ordinary shares

Issued and fully paid	96,304	92,726
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Movement in ordinary shares on issue	Number	\$000's
<b>Balance at 1 July 2014</b>	<b>226,693,758</b>	<b>91,548</b>
Cancellation of shares for Executive Long Term Incentive Plan	(75,000)	-
Issue of shares under the dividend re-investment plan	2,454,499	1,178
<b>Balance at 30 June 2015</b>	<b>229,073,257</b>	<b>92,726</b>
Issue of shares for Executive Long Term Incentive Plan	3,300,000	-
Cancellation of shares for Executive Long Term Incentive Plan	(575,000)	-
Issue of shares under the dividend re-investment plan	8,629,936	3,578
<b>Balance at 30 June 2016</b>	<b>240,428,193</b>	<b>96,304</b>

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 remuneration report on page 6).

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Share buy-back

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

### Capital risk management

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

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

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

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

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 21: RESERVES

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

Option reserve	161	120
Cash flow hedge reserve	(504)	710
<b>Closing balance</b>	<b>(343)</b>	<b>830</b>

### Option reserve

The reserve is used to recognise the value of share options at an agreed price, where certain employees are granted options for shares that vest at a future date subject to the employee still being employed at that vesting date.

### Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

## NOTE 22: RETAINED EARNINGS

Retained profits at the beginning of the year	14,845	13,536
Net profit attributable to members of the Company	6,938	5,842
Dividends paid	(6,380)	(4,533)
<b>Retained profits at the end of the year</b>	<b>15,403</b>	<b>14,845</b>

## NOTE 23: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

### Interest rate risk

The Group's exposure to interest rate risk is limited to interest receivable and payable on bank accounts and drawn down bank loans. The interest rates contained in the finance lease and hire purchase agreements are fixed for the term of those arrangements. All cash balances are at call and the average interest rate on the deposits is 1.3%.

### 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 44.8% of purchases of materials and capital items.

### Commodity price risk

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

### Credit risk

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

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

### Liquidity risk

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

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 24: FINANCIAL INSTRUMENTS

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

### Interest rate risk

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

	Floating interest rate	Fixed interest rate	Non-interest bearing	Total carrying amount per the statement of financial position	Weighted average interest rate
	2016 \$000's	2016 \$000's	2016 \$000's	2016 \$000's	2016 %
<b>Consolidated</b>					
(i) Financial assets					
Cash Assets	15,335	-	10	15,345	1.3
Receivables	-	-	36,772	36,772	
<b>Total financial assets</b>	<b>15,335</b>	<b>-</b>	<b>36,782</b>	<b>52,117</b>	
(ii) Financial liabilities					
Finance Leases (current)	-	1,156	-	1,156	6.3
Finance Leases (non-current)	-	1,604	-	1,604	6.3
Trade Finance (current)	3,000	-	-	3,000	4.5
Bank loans (non-current)	25,500	-	-	25,500	4.5
Payables (current)	-	-	30,013	30,013	
<b>Total financial liabilities</b>	<b>28,500</b>	<b>2,760</b>	<b>30,013</b>	<b>61,273</b>	
<b>Net financial assets/(liabilities)</b>	<b>(13,165)</b>	<b>(2,760)</b>	<b>6,769</b>	<b>(9,156)</b>	

There is no interest rate applicable on receivables or payables.

	2015 \$000's	2015 \$000's	2015 \$000's	2015 \$000's	2015 %
<b>Restated Consolidated</b>					
(i) Financial assets					
Cash Assets	6,110	-	10	6,120	2.1
Receivables	-	-	38,506	38,506	
<b>Total financial assets</b>	<b>6,110</b>	<b>-</b>	<b>38,516</b>	<b>44,626</b>	
(ii) Financial liabilities					
Finance Leases (current)	-	1,183	-	1,183	6.9
Finance Leases (non-current)	-	1,771	-	1,771	6.9
Trade Finance (current)	2,551	-	-	2,551	5.6
Bank loans (non-current)	25,500	-	-	25,500	5.6
Payables (current)	-	-	26,628	26,628	
<b>Total financial liabilities</b>	<b>28,051</b>	<b>2,954</b>	<b>26,628</b>	<b>57,633</b>	
<b>Net financial assets/(liabilities)</b>	<b>(21,941)</b>	<b>(2,954)</b>	<b>11,888</b>	<b>(13,007)</b>	



## NOTE 24: FINANCIAL INSTRUMENTS (CONT.)

	Less than one year \$000's	Between 1 and 2 years \$000's	Between 2 and 3 years \$000's	Between 3 and 4 years \$000's	Between 4 and 5 years \$000's	More than 5 years \$000's	Total \$000's
<b>Year ended 30 June 2016</b>							
<b>Consolidated</b>							
Cash assets	15,335	-	-	-	-	-	15,335
Trade Finance	3,000	-	-	-	-	-	3,000
Finance leases	1,156	770	544	249	41	-	2,760
Bank loans	-	25,500	-	-	-	-	25,500
<b>Year ended 30 June 2015</b>							
<b>Consolidated</b>							
Cash assets	6,110	-	-	-	-	-	6,110
Trade Finance	2,551	-	-	-	-	-	2,551
Finance leases	1,183	887	506	312	63	3	2,954
Bank loans	-	25,500	-	-	-	-	25,500

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

### Sensitivity analysis

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

	Consolidated Profit \$000's	Consolidated Equity \$000's
<b>2016</b>		
+/- 1% in interest rates	+/- 287	+/- 287
+/- 10% in AUD/USD	+/- 8,467	+/- 8,467
<b>2015</b>		
+/- 1% in interest rates	+/- 277	+/- 277
+/- 10% in AUD/USD	+/- 6,776	+/- 6,776

### Market risk

#### Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge 100% of anticipated USD foreign currency transactions for the subsequent 3 months (2015: 3 months).

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 24: FINANCIAL INSTRUMENTS (CONT.)

### Foreign currency risk (cont.)

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Sell Australian dollars		Average exchange rates	
	2016	2015	2016	2015
	\$000's	\$000's		
<b>Buy US dollar</b>				
Maturity:				
0 - 3 months	20,877	22,231	0.7275	0.7814
3 - 6 months	1,996	-	0.7315	-
6 - 12 months	1,098	1,197	0.7386	0.7683
			<b>Consolidated</b>	<b>Consolidated</b>
			<b>2016</b>	<b>2015</b>
			<b>\$000's</b>	<b>\$000's</b>

## NOTE 25: DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts - cash flow hedges - current asset	-	710
Forward foreign exchange contracts - cash flow hedges - current liability	504	-

Refer to note 26 for further information on fair value measurement.

## NOTE 26: FAIR VALUE MEASUREMENT

### Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

	Level 1	Level 2	Level 3	Total
	\$000's	\$000's	\$000's	\$000's
<b>CONSOLIDATED - 2016</b>				
<b>Liabilities</b>				
Derivative liability	-	504	-	504
<b>Total liabilities</b>	-	504	-	504
<b>CONSOLIDATED - 2015</b>				
<b>Assets</b>				
Derivative asset	-	710	-	710
<b>Total assets</b>	-	710	-	710

## NOTE 26: FAIR VALUE MEASUREMENT (CONT.)

Derivative financial instruments have been valued using market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

## NOTE 27: CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 2. The financial years of all controlled entities are the same as that of the parent entity.

	Country of Incorporation	Class of Shares	Equity Holding 2016	Equity Holding 2015
<b>Direct Controlled Entities:</b>				
Pro-Pac Group Pty Ltd	Australia	Ordinary	100%	100%
Plastic Bottles Pty Ltd	Australia	Ordinary	100%	100%
PPG Services SDN BHD	Malaysia	Ordinary	100%	100%
<b>Controlled Entities owned 100% by Pro-Pac Group Pty Ltd</b>				
Pro-Pac Packaging (Aust) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac (GLP) Pty Ltd	Australia	Ordinary	100%	100%
<b>Controlled Entities owned 100% by Plastic Bottles Pty Ltd</b>				
Australian Bottle Manufacturers Pty Ltd	Australia	Ordinary	100%	100%
Bev-Cap Pty Ltd	Australia	Ordinary	100%	100%
Ctech Closures Pty Ltd	Australia	Ordinary	100%	100%
Specialty Products and Dispensers Pty Ltd	Australia	Ordinary	100%	100%
<b>Controlled Entities owned 100% by Pro-Pac Packaging (Aust) Pty Ltd</b>				
Creative Packaging Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Syd) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Melb) Pty Ltd	Australia	Ordinary	100%	100%
Pro-Pac Packaging Manufacturing (Bris) Pty Ltd	Australia	Ordinary	100%	100%
<b>Controlled Entities owned 100% by Bev-Cap Pty Ltd</b>				
Finpact (Pty) Ltd	Australia	Ordinary	100%	100%
Great Lakes Moulding Pty Ltd	Australia	Ordinary	100%	100%

### Entities subject to class order relief

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

Pro-Pac Packaging Limited  
Plastic Bottles Pty Ltd  
Pro-Pac Group Pty Ltd

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

As parent entity, Pro-Pac Packaging Limited and other group entities, Pro-Pac Group Pty Ltd and Plastic Bottles Pty Ltd as disclosed above are party to the deed of cross guarantee, the Statement of Profit and Loss and Other Comprehensive Income and the Statement of Financial Position of the entities that are party to the deed of cross guarantee are as presented in the Consolidated Statement of

# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 27: CONTROLLED ENTITIES (CONT.)

### Entities subject to class order relief (cont.)

Profit and Loss and Other Comprehensive Income on page 21 and Consolidated Statement of Financial Position presented on page 22. PPG Services SDN BHD does not form part of the deed of cross guarantee. The impact on the net assets and profit for the year of the Group is not considered to be material.

## NOTE 28: COMMITMENTS AND CONTINGENCIES

### Operating lease commitments – Group as lessee

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

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

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

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

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
Within one year	5,764	4,911
After one year but not more than five years	9,798	10,372
More than five years	-	30
<b>Total</b>	<b>15,562</b>	<b>15,313</b>

Figures exclude GST

### Finance lease and hire purchase commitments

The Group has finance leases and hire purchase contracts for various items of plant and machinery.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2016 Minimum payments \$000's	2016 Present value of payments \$000's	2015 Minimum payments \$000's	2015 Present value of payments \$000's
Within one year	1,292	1,156	1,340	1,183
After one year but not more than five years	1,724	1,604	1,912	1,771
Total minimum lease payments	3,016	2,760	3,252	2,954
Less amounts representing future finance charges	(256)	-	(298)	-
Present value of minimum lease payments	2,760	2,760	2,954	2,954

  

	2016	2016
Representing lease liabilities		
Current	1,156	1,183
Non-current	1,604	1,771
<b>Total</b>	<b>2,760</b>	<b>2,954</b>

The weighted average interest rate implicit in the leases is 6.3%.

## NOTE 28: COMMITMENTS AND CONTINGENCIES (CONT.)

### Contingent Liability

As at statement of financial position date, the Company issued security deposit guarantees and standby letters of credits to the value of \$1,865,015 (2015: \$2,418,092) to the landlords of rented premises and overseas suppliers.

As at statement of financial position date, the Company is defending a claim of \$1.2 million arising from the acquisition of the assets and businesses of Eco Food Pack Australia Pty Limited. The Company has lodged counter claims in excess of \$4.0 million.

### Capital Expenditure Commitments

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

	Consolidated 2016 \$000's	Consolidated 2015 \$000's
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## NOTE 29: IMPAIRMENT TESTING OF GOODWILL

### Carrying amount of goodwill

Carrying amount of goodwill Industrial Division	48,626	48,242
Carrying amount of goodwill Rigid Division	22,095	22,095
<b>Total Carrying amount of goodwill</b>	<b>70,721</b>	<b>70,337</b>

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

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

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

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

- 4.9% pre-tax discount rate; (2015: 7.5%);
- 4.0% for industrial division (2015: 5.5%) and 3.9% for rigid division (2015: 3.2%) per annum projected revenue growth rate; and
- 4.0% for industrial division (2015: 5.5%) and 3.9% for rigid division (2015: 3.2%) per annum increase in operating costs and overheads.

The discount rate of 4.9% pre-tax reflects management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

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

### Sensitivity

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

- the discount rate would need to increase to 9.5% for the Industrial division and to 18.0% for the Rigid division before goodwill would be impaired. A rate of 4.9% was used in the assessment of goodwill; and
- the EBITDA growth rate would need to decrease to negative 63.4% in the Industrial division and to negative 58.6% in the Rigid division before goodwill would be impaired. EBITDA growth rates of 4.0% and 3.9% respectively, were used in the assessment of goodwill for the Industrial and Rigid divisions respectively.



# Notes to the Financial Statements

For the year ended 30 June 2016

## NOTE 30: 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 27.

### Transactions with Key Management Personnel

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

	Consolidated 2016 \$	Consolidated 2015 \$
<b>Hadrian Morrall</b>		
▪ Remuneration paid	260,890	249,443
▪ Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	751,557	796,405
– 9 Widemere Road, Wetherill Park, NSW	581,505	581,505
– Unit 15/129 Robinson Road, Geebung, QLD	125,203	125,203
– 32 Hinkler Road, Mordialloc, VIC	44,849	89,697
<b>Brandon Penn</b>		
▪ Remuneration paid	110,857	267,377
▪ Payments to Morrall Penn Holdings Pty Ltd and The Penn Morrall Partnership for rental related to the Sydney, Melbourne and Brisbane properties (inc GST)	751,557	796,405
– 9 Widemere Road, Wetherill Park, NSW	581,505	581,505
– Unit 15/129 Robinson Road, Geebung, QLD	125,203	125,203
– 32 Hinkler Road, Mordialloc, VIC	44,849	89,697

Total payments to related parties during the year ended 30 June 2016 was \$1,123,304 (2015: \$1,313,225).

## NOTE 31: KEY MANAGEMENT PERSONNEL DISCLOSURE

### Key Management Personnel at 30 June 2016

Ahmed Fahour	Non-executive Chairman
Elliott Kaplan	Non-executive Director
Dr Gary Weiss	Non-executive Director
Brandon Penn	Non-executive Director (acting CEO effective 13 July 2016)
Peter Sutton	Chief Executive Officer (resigned 13 July 2016)
Hadrian Morrall	Divisional Managing Director (resigned 30 June 2016)
Mark Saus	Chief Financial Officer and Company Secretary

Total remuneration made to above key management personnel during the year ended 30 June 2016 was \$1,299,214 (2015: \$1,429,958). Details of remuneration made to above key management personnel are disclosed in the Directors' Report on page 8.

### Remuneration of Key Management Personnel

Excluding the Directors, there are only three staff members of the Company who qualify as "Key Management Personnel" for the purposes of this report. The executive key management personnel are also the most highly paid executive officers of the consolidated entity for the year under review. For more details refer to the remuneration report as included in Directors' Report.

	2016 \$000's	Parent 2015 \$000's
<b>NOTE 32: PARENT ENTITY INFORMATION</b>		
Set out below is the supplementary information about the parent entity.		
Profit for the year	6,950	4,535
Total comprehensive income	6,950	4,535
Total current assets	12,436	4,014
<b>Total assets</b>	<b>94,817</b>	<b>95,094</b>
Total current liabilities	213	2,345
<b>Total liabilities</b>	<b>213</b>	<b>2,345</b>
Equity		
Contributed equity	96,304	92,726
Retained profits/(accumulated losses)	6,878	4,844
<b>Total equity</b>	<b>94,604</b>	<b>92,749</b>

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

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

## NOTE 33: EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

On 26 August 2016, the Company declared a fully franked final dividend of 1.5 cents per share. For details refer to the Directors' Report on page 5.

	Consolidated 2016 \$	Consolidated 2015 \$
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## NOTE 34: AUDITORS' REMUNERATION

Amounts paid or due payable to UHY Haines Norton for:

- audit or review of the financial report and half-year financial report

## NOTE 35: ACCOUNTING STANDARDS ISSUED OR AMENDED

A number of accounting standards have either been issued or amended since year end but are not effective for the financial year ended 30 June 2016. The Group does not at this time believe these have any material impact on the 2016 financial report or for the ensuing year.

# Directors' Declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 21 to 53, are in accordance with the *Corporations Act 2001* and:
  - a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - b) give a true and fair view of the consolidated entity's financial position at 30 June 2016 and of its performance for the year ended on that date;
  - c) comply with International Financial Reporting Standards as disclosed in Note 2 (b) to the financial statements.
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - b) the financial statements and notes for the financial year comply with the accounting standards; and
  - c) the financial statements and notes for the financial year give a true and fair view; and
3. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
4. At the date of this declaration, there are reasonable grounds to believe that the entities that are party to the deed of cross guarantee as described in note 27 to the financial statements will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the Board of Directors pursuant to section 295 (5) (a) of the *Corporations Act 2001*.

On behalf of the Board on 27 September 2016.

**Ahmed Fahour**  
Chairman

**Elliott Kaplan**  
Director

# Independent Auditor's Report

## To the members of Pro-Pac Packaging Limited

We have audited the accompanying financial report of Pro-Pac Packaging Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Pro-Pac Packaging Limited and the entities it controlled at year's end or from time to time during the financial 30 June 2016.

### Directors' Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the Directors also state, in accordance with Accounting Standards AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### Auditor's Responsibility

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

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### Opinion

In our opinion:

- (a) the financial report of Pro-Pac Packaging Limited, is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

### Report on the Remuneration Report

We have audited the Remuneration Report included on pages 5 to 9 of the Directors' report for the year ended 30 June 2016. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Pro-Pac Packaging Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.



**M.D. Nicholaeff**  
Partner



**UHY Haines Norton**  
Chartered Accountants

Signed at Sydney on 27 September 2016.

# 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 16 September 2016.

## (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	99	11,060	0.005
1,001 - 5,000	110	351,900	0.146
5,001 - 10,000	117	960,187	0.399
10,001 - 100,000	736	30,091,168	12.516
100,001 and over	140	209,013,878	86.934
<b>Totals</b>	<b>1,202</b>	<b>240,428,193</b>	<b>100.00</b>

There are ninety nine holders of unmarketable parcels totalling 11,060 shares representing 0.005% of the Company's issued capital.

## (b) Twenty largest holders

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

Rank	Holder	Number	%
1	BENAMON PTY LTD	120,193,402	49.99
2	MR BRANDON ARI PENN	22,279,165	9.27
3	AUST EXECUTOR TRUSTEES LTD <LANYON AUST VALUE FUND>	17,404,015	7.24
4	EQUITAS NOMINEES PTY LIMITED <PB-600762 A/C>	10,674,153	4.44
5	BNP PARIBAS NOMS PTY LTD <DRP>	3,673,951	1.53
6	MR BRANDON PENN & MRS WENDY PENN <CARLTASHA DISCRETIONRY A/C>	2,297,872	0.96
7	NATIONAL NOMINEES LIMITED	1,507,958	0.63
8	MISCHKE INVESTMENTS PTY LTD <MISCHKE SUPER FUND A/C>	1,044,777	0.43
9	MRS NATALIE PENN	1,033,180	0.43
10	CVC LIMITED	834,628	0.35
11	MISCHKE INVESTMENTS PTY LTD <DELAFOSSA FAMILY A/C>	754,850	0.31
12	SONHILL INVESTMENTS PTY LTD <PETERSON SUPER FUND A/C>	723,310	0.30
13	WILBOW GROUP PTY LTD <WILBOW GROUP A/C>	618,242	0.26
14	W & S SEJA INVESTMENTS PTY LTD <SEJA FAMILY A/C>	601,972	0.25
15	PHILANTHROPIC INVESTORS CLUB PTY LTD <PHILANTHROPIC INVST FND A/C>	600,000	0.25
16	MR GREGORY RIDDER & MRS LEE RIDDER <RIDDER SUPER FUND A/C>	531,724	0.22
17	RUBI HOLDINGS PTY LTD <JOHN RUBINO S/F A/C>	514,146	0.21
18	MR CRAIG STEWART FOX & MRS TONI ROSEMARY FOX <FOX FAMILY SUPER FUND A/C>	512,780	0.21
19	DONALD CANT PTY LTD	450,000	0.19
20	DR JEFFREY CHAITOW & MRS TANYA CHAITOW <CHAITOW SUPER FUND A/C>	416,171	0.17
<b>Top 20</b>		<b>186,666,296</b>	<b>77.64</b>

## (c) Substantial shareholders

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

Bennamon Pty Limited	120,193,402 ordinary shares
Mr Brandon Penn	24,958,817 ordinary shares
Trustees Australia Limited for Lanyon Australian Value Fund	17,404,015 ordinary shares

## (d) Voting rights

All ordinary shares carry one vote per share without restriction.

## (e) Restricted securities

Restricted securities total 4,900,000.

ESPP Shares under escrow until 21 July 2016	800,000 ESPP shares (returned to Company, pending cancellation at the next AGM)
ESPP Shares under escrow until 24 March 2017	850,000 ESPP shares
ESPP Shares under escrow until 6 October 2018	3,250,000 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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