

CORPORATE GOVERNANCE STATEMENT

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

On 31 March 2003, the ASX Corporate Governance Council released its principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles). The ASX Listing Rules require Pro-Pac to disclose in its annual report whether its corporate governance practices follow the 10 ASX Principles on an “if not, why not” basis.

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

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

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

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

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

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

ASX Principle 1 - Lay solid foundations for management and oversight

Role of the Board

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

ASX Principle 2 - Structure the Board to add value

Structure of the Board

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

In the context of Director Independence, “materiality” is considered from both the Company and the individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 10% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered included whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the Company's loyalty.

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

Name	Position	Reason for non-compliance
John Read	Non-Executive Chairman	Mr Read is director of CVC Limited, a substantial shareholder.
Elliott Kaplan	Non-Executive Director	Mr Kaplan is a director of CVC Private Equity Limited, a substantial shareholder.
Hadrian Morrall	Executive Director	Mr Morrall is employed by the Company in an executive capacity, is a substantial shareholder and a supplier of leasehold premises.
Brandon Penn	Non- executive Director	Mr Penn is a substantial shareholder and a supplier of leasehold premises.

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

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

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

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

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

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

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

- act honestly, in good faith and in the best interests of the Company as a whole;
- perform the functions of office and exercise the powers attached to that office with a degree of care and diligence that a reasonable person would exercise if he were a Director in the same circumstances; and
- consider matters before the Board having regard to any possible personal interests, the amount of information appropriate to properly consider the subject matter and what is in the best interests of the Company.

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

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

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

Name	Term in office
John Read	37 months
Elliott Kaplan	44 months
Hadrian Morrall	13 months
Brandon Penn	13 months

The Board believes that a Board of four Directors operates effectively, generally allows the Board to collectively exercise its authority without the need for many sub-committees and is appropriate for the size of the Company. Further, the Board has considered the competencies and experience of each of the Directors and believes that it is not in the interests of shareholders to seek to replace any of the current Board members. For these reasons, the Company did not adopt the following best practice recommendations throughout the financial year ended 30 June 2008:

- having a majority of independent Directors;
- having an independent Chairman;
- having an independent Chairman for its Audit Committee; and
- having a Nomination Committee of the Board.

Nomination and appointment of new directors

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

ASX Principle 3 - Promote ethical and responsible decision-making

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

Code of Conduct

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

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

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

with the Chairman or Company Secretary and, if necessary, seek external professional advice. A copy of the Code of Conduct is posted on the Pro-Pac website.

Securities Trading Policy

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

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

ASX Principle 4 - Safeguard integrity in financial reporting

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

The management of Pro-Pac reports monthly to the Board on its financial performance and other key business-related matters. Consistent with *ASX Principle 4*, each half-year the Chief Executive Officer and Chief Financial Officer provide written assurance to the Board as to the veracity of the financial conditions and operational results of the Pro-Pac group and that they are in accordance with relevant accounting standards.

Audit Committee

To assist in the execution of its responsibilities, the Board has established an Audit Committee. The structure of the Audit Committee and its responsibilities reflect the requirements of *ASX Principle 4*. A summary of the Charter setting out the Committee's responsibilities is posted on the Pro-Pac website.

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

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

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

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

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

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

ASX Principle 5 - Make timely and balanced disclosure

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

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

ASX Principle 6 - Respect the rights of shareholders

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

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

ASX Principle 7 Recognise and manage risk

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

In addition to its financial reporting obligations, the Audit Committee is responsible for reviewing the risk management framework and policies of Pro-Pac. The structure of the Audit Committee and its responsibilities reflect the requirements of *ASX Principle 7*.

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

ASX Principle 8 - Encourage enhanced performance

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

The Company did not perform a performance evaluation of the Board and its members during the year ended 30 June 2008.

ASX Principle 9 - Remunerate fairly and responsibly

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

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 the requirements of *ASX Principle 9*. The Committee comprises Mr Read, Mr Kaplan and Mr Penn. In addition to the members, the Chief Executive is invited to the meetings at the discretion of the Committee.

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

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

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

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

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

ASX Principle 10 - Recognise the legitimate interests of stakeholders

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