



## Chairman's report to the AGM on 29 November 2012.

This report is presented to shareholders on behalf of the board and the managing director, all of whom are available today to answer any questions shareholders may have following the formalities.

I refer shareholders to my report contained within the published Annual Report for 2012 which gave a comprehensive overview of the activities of the company. I ask that the published report be taken as read.

At the 2011 AGM I said that "The board anticipates that in the coming year we will have established a fully functioning factory in Egypt, Nag Hamady will be producing banana mixed MDF panelboard, the market in Europe for our banana veneered and fibre panel products will be developing, and the Yellow Pallet project will be proceeding toward commercial implementation."

Those stated objectives were not achieved for a variety of reasons which need explanation.

1. Factory in Egypt. This project progresses but not at the rate we would like. The revolution in Egypt in 2011, the national elections which followed in 2012, and the continuing civil unrest severely constrained the economic environment and the ability of our partner to raise necessary capital to pay for the patented Papyrus machinery. The 1200 square metre factory building has been constructed on 2,000 square metres of land in Sohag and services have been connected at our partner's cost, but our partner has failed to meet the payment schedules for the purchase of machinery. Recent small non-refundable part payments are acknowledged bringing to a total of \$150,000 payment but our partner remains in arrears and is presently liable to pay the balance of the first tranche amounting to \$500,000. The board has decided that it will continue to support the banana fibre project in Egypt but will not release the machinery to Egypt until our partner meets reasonable financial obligations to pay for the machinery. The board continues to review the decision to establish the first commercial operating banana fibre factory in Egypt, especially in the light of more recent civil unrest in the country. We believe that the decision made in 2010 was correct at the time and remains strategically correct because of the reasons we chose Egypt in the first place, but we will not release our machinery until such time as we receive appropriate payment and we are satisfied that ongoing financial obligations can be met by our partner.

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2. Nag Hamady panelboard production. Because of the delay in commencing the banana fibre factory, the panelboard production has not commenced. The chairman and managing director of Nag Hamady remains supportive of the project and in communication with myself and the managing director. I am confident that once banana fibre is available from the Egypt factory, Nag Hamady will be producing banana fibre MDF panelboard.
3. Europe market. Likewise the Europe market opportunities have not progressed because the Egypt project has not reached production.
4. Yellow Pallet. The Yellow Pallet project progresses albeit slowly, essentially for a similar constraint in economic circumstances in Europe. As an alternate to locating in Central or Southern America, we are presently assessing the option of co-locating the Yellow Pallet trial project with Papyrus Egypt to produce banana fibre product to be used in transport pallet product production.

Since 2010, the company's commercialisation strategy and future has been to become a technology development and licensing company – as distinct from a producer of banana fibre product for sale to market. The board continues to adhere to that strategy and objective, believing it to be correct. The market response has been positive but entirely dependent upon the successful establishment of the factory in Egypt. Apart from our partner in Egypt, no-one wants to go first – they all want to see proof of commercialisation in Egypt.

For example, apart from the Yellow Pallet project, the entities we have engaged in significant banana growing countries such as The Philippines, China, India, Sri Lanka and in Central and Southern America are all awaiting the outcome of the commercialisation of the project in Egypt.

As I have said previously, the Australian market is not prepared to engage with the banana fibre opportunity essentially because of the existing investment in infrastructure to process forest sourced fibre and the resistance to move away from the entrenched commitment to forest sourced fibre – notwithstanding the recent failures in that industry.

And we have also learnt from our demonstration factory at Walkamin in Far North Queensland, that sustaining a manufacturing business, especially a start up, is tough going in Australia with labour and transport costs being prohibitive.

## **What have we achieved during this year 2011/2012?**

We have fully supported the Papyrus Egypt project to secure development of the factory building and potential financing for the purchase of our machinery. Our managing director and myself have visited Egypt on several occasions to meet with our partner, potential investors and financiers. The potential investors are challenged by the fact that this is the first such project and the financial institutions are presently influenced by the fact that Papyrus Egypt does not have a "track record" for production and that the Egyptian economic and political situation is not stable. Negotiations continue.

We have maintained production of veneer and fibre at Walkamin for the various trials undertaken during the year to test the utility of fibre in particular for the manufacture of banana fibre products.

Our market research continues to inform that banana fibre itself as a raw material has significant market potential, both as a substitute for or as an addition to timber based fibre, such as that used to make hardboard, MDF, chipboard and cork equivalent and this has driven our belief and endeavour to establish the factory in Egypt and the Yellow Pallet project.

We know from our trials and those conducted for us originally by CSIRO, that our banana fibre can be successfully mixed with timber fibre to produce these commonly known timber based products.

We also know from trials conducted this year by Nag Hamady in Egypt, Wageningen University in The Netherlands , and the Fraunhofer Institute in Germany, that pure banana fibre can be utilised to produce these same products. We are yet to achieve the European standard for structural panelboard, as distinct from non-structural board which we have achieved for use in a variety of applications such as ceiling tiles and non load-bearing flooring, and no-one has informed us that the European standard for structural board cannot be achieved or that our belief in the potential for the products cannot be achieved. To the contrary, The Fraunhofer Institute has indicated that the standard can be achieved with further process which is on hold for financial reasons.

At the 2011 AGM, I said that "It should be noted that the Yellow Pallet project is the sort of inventive thinking and new business opportunity we expect to see in the future to utilise banana fibre. The proponents of Yellow Pallet approached Papyrus with a new business opportunity to meet the needs of banana growers in Central and Southern America. The project will take at least 12 months to reach maturity but we are confident from our own knowledge of banana fibre that it will be successful." We remain of that view.

We are now awaiting confirmation of the funding for the trial project to manufacture banana fibre blocks which are an essential component of the existing timber transport pallet. We have accepted advice from participants in the pallet industry that an initial entry product for the transport pallet industry is the manufacture of fibre blocks until such time as banana fibre production can reach a level to support banana fibre pallet production. We are working with IMAL from Italy and Hollandia Systems from The Netherlands in this Yellow Pallet project.

As mentioned earlier, we are considering co-location of the Yellow Pallet project with Papyrus Egypt but continue to explore the location of the project in Central or Southern America. A decision will be made soon according to who pays the price we are asking for our patented machinery which is essential to the project.

Our Intellectual Property bank continued to grow during the year which is detailed in the Annual Report. One patent award deserves mention and that is the patent awarded by the United States for *Method and Apparatus for Removing Sheets of Fibres from Banana Plants* or as we know it, our "Original Patent." In short, this is particularly important to Papyrus as the award of a United States patent demonstrates the strength of the patent claims expressed in our veneering machine and is highly regarded because of the stringency of the United States assessment criteria.

We also quit the Brimms site in Brisbane at the end of the site lease in June 2012 salvaging materials and cleared the site thus reducing our annual expenditure.

In this context I must acknowledge our perpetual weakness – lack of funds. Today we have \$236,000 in the bank with access on call to an additional \$100,000 from a larger loan advanced by the managing director. We have pruned expenses to the absolute limit and allowing for monthly variations we spend on average \$65,000 per month, to be offset by anticipated revenues. We are seriously considering capital raising options for next year dependent upon progress in Egypt and with Yellow Pallet. I will be advising shareholders of our decision in this regard by end of first quarter 2013.

## **Governance**

I note the attendance of our directors Ramy Azer, Donald Stephens and Colin Dunsford and thank them for their ongoing support and guidance. The governance of the company has been reinforced by the appointment of Geoff Whitbread as Chief Executive whom I thank for his tireless efforts at meeting our expectations and all regulatory requirements. I also wish to acknowledge the efforts of our company secretary Pierre Van Der Merwe.

I have previously noted the retirement of original director Chris Smerdon in August 2011 and again I thank Chris for his contribution to the formation and governance of the company since 2004.

The board is committed and working hard to achieve a sound and a sustainable future for the Company. We implemented significant cost cutting measures during the year to ensure sustainability consistent with our needs and future direction. As a matter of record, the directors have not taken any fees since late in 2010 and the managing director's remuneration ceased in June 2012 and no liability is accruing for any of these items. The directors are all absolutely committed to this company and its potential.

In conclusion, as I said last year, the board is working strategically to reward shareholders with a return on investment through capital growth and dividend income, in the longer term. I thank the directors for their tireless commitment to the future of Papyrus Australia worldwide and I thank the shareholders for their patience.

Ted Byrt.  
Chairman.  
29 November 2012.

