



10 December 2012

Mr Cormac Murphy
Adviser, Listings Compliance
ASX Compliance Pty Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Cormac

PAPYRUS AUSTRALIA LTD CORPORATE GOVERNANCE STATEMENT

We refer to your letter of 7 December 2012 in relation to corporate governance practices of the Company. Upon review of the Company's annual report, we note that the Company's Corporate Governance Statement is missing from the release. The statement was prepared by the Company, however appears to have been omitted when the annual report was compiled for printing. Accordingly, to satisfy the requirements outlined in your letter, we attach the Company's Corporate Governance Statement prepared for the 2012 financial year and apologise for any inconvenience caused.

Yours sincerely

A handwritten signature in black ink, appearing to read "P. Van Der Merwe". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mr Pierre Van Der Merwe
Company Secretary

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Introduction

The board of Directors is responsible for the corporate governance of Papyrus Australia Ltd and its controlled entities (the Group). The Group operates in accordance with the corporate governance principles as set out by the ASX Corporate Governance Council and required under ASX listing rules.

The Group details below the corporate governance practices in place at the end of the financial year, all of which comply with the principles and recommendations of the ASX Corporate Governance Council unless otherwise stated. Some of the charters and policies that form the basis of the corporate governance practices of the Group may be located on the Group's website, www.papirusaustralia.com.au.

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity, remuneration, trading policies and briefings. The Group has addressed the amended principles within this statement.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1: Role of the board and management

The board are accountable to the Shareholders for the performance of the Group and have overall responsibility for its operations. Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives, are formally delegated by the board to the Managing Director and ultimately to senior executives.

The key responsibilities of the board include:

- Approving the strategic direction and related objectives of the Group and monitoring management performance in the achievement of these objectives;
- Adopting budgets and monitoring the financial performance of the Group;
- Reviewing annually the performance of the Managing Director and senior executives against the objectives and performance indicators established by the board.
- Overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems.
- Overseeing the implementation and management of effective safety and environmental performance systems.
- Ensuring all major business risks are identified and effectively managed.
- Ensuring that the Group meets its legal and statutory obligations.

For the purposes of the proper performance of their duties, the Directors are entitled to seek independent professional advice at the Group's expense, unless the board determines otherwise. The board schedules meetings on a regular basis and other meetings as and when required.

The board has not publically disclosed a statement of matters reserved for the board, or the board charter and therefore the Group has not complied with recommendation 1.3 of the Corporate Governance Council. Given the experience and skills of the board of directors, the Group has not considered it necessary to formulate a board charter.

Recommendation 1.2: Performance evaluation of senior management

The Managing Director and senior management participates in annual performance reviews. The performance of staff is measured against the objectives and performance indicators established by the board. A performance evaluation for the senior management took place for the current reporting period in accordance with the Group's documented process. The performance of senior management is reviewed by comparing performance against agreed measures, examining the effectiveness and results of their contribution and identifying areas for potential improvement. In accordance with recommendations 1.2 and 1.3 of the ASX Corporate Governance Council the Group has not disclosed a description of the performance evaluation process in addition to the disclosure above.

Principle 2: Structure the board to add value

Size and composition of the board

For the financial year ended 30 June 2012 the board consisted of four Non-Executive Directors and one Managing Director. Directors are expected to bring independent views and judgement to the board's deliberations.

- Mr Edward Byrt Non-Executive Chairman
- Mr Ramy Azer Managing Director
- Mr Donald Stephens Non-Executive Director
- Mr Colin Dunsford Non-Executive Director

The board considers this to be an appropriate composition given the size and development of the Group at the present time. A profile of each Director including their skills, qualifications and experience are set out in the Directors' report of this Annual Report.

Recommendation 2.1: Independence

The board is conscious of the need for independence and ensures that where a conflict of interest may arise, the relevant Director(s) leave the meeting to ensure a full and frank discussion of the matter(s) under consideration by the rest of the board. Those Directors who have interests in specific transactions or potential transactions do not receive board papers related to those transactions or potential transactions, do not participate in any part of a Directors meeting which considers those transactions or potential transactions, are not involved in the decision making process in respect of those transactions or potential transactions, and are asked not to discuss those transactions or potential transactions with other Directors. Each Director is required by the Company to declare on an annual basis the details of any financial or other relevant interests that they may have in the Company.

Mr Colin Dunsford is a Non-Executive Directors and has no other material relationship with the Group or its subsidiary other than their directorships. The Group therefore had one independent director during the year as those relationships were defined.

Recommendations 2.2, 2.3: Role of the Chairman

The role of the Chairman is to provide leadership to the board and facilitate the efficient organisation and conduct of the board's functioning. Mr Edward Byrt, the Chairman of the Group does not perform the role of the Managing Director however due to his shareholding in the Company is not considered to be independent. The Company has therefore not complied with recommendations 2.2 of the Corporate Governance Council.

Recommendation 2.4: Nomination, retirement and appointment of Directors

The board has not established a nomination and remuneration committee in accordance with recommendation 2.4 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and continues to monitor the composition of the committee and the roles and responsibilities of the members. Accordingly, the Group has not established remuneration and nomination committee charters in accordance with recommendations 2.4 and 2.6 of the ASX Corporate Governance Council.

Recommendation 2.5: Evaluation of board performance

The board continues to review performance against appropriate measures and identify ways to improve performance. A performance evaluation of the board, its Committees and individual Directors took place for the current reporting period. The board has not formally disclosed the process in accordance with recommendations 2.5 and 2.6 of the ASX Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider the disclosure of the performance evaluation necessary at this stage.

Principle 3: Promote ethical and responsible decision making

Recommendation 3.1: Code of Conduct

The board recognises the need for Directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity. The Group intends to maintain a reputation for integrity and is highly committed to demonstrating appropriate corporate practices and decision making. The Group's officers and employees are required to act in accordance with the law and with the highest ethical standards. The board has not adopted and disclosed a formal code of conduct applying to the board and all employees in accordance with recommendations 3.1 and 3.3 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider the disclosure of the code necessary at this stage.

Securities Trading Policy

Effective from the 1 January 2011, the Group is required to adopt and disclose a securities trading policy under ASX Listing Rules. The Group has established a policy concerning trading in Group securities by Directors, senior executives and employees, and this is available on the ASX website www.asx.com.au. Therefore the Company complies with recommendation 3.2 of the second edition of the Corporate Governance Council principles.

Recommendations 3.2, 3.3, 3.4: Diversity

The ASX Corporate Governance Council has released amendments dated 30 June 2010 to the second edition Corporate Governance Principles and Recommendations (Principles and Recommendations) in relation to diversity. The Group is committed to supporting diversity, including consideration of gender, age, ethnicity and cultural background. The board is ultimately responsible for reviewing the achievement of this policy. The Group recognises that through consideration of diversity and the best available talent, it will assist in promoting a working environment to maximise achievement of the corporate goals of the organisation.

The Group continues to strive towards achieving objectives established towards increasing gender diversity. The Company at 30 June 2012 has four employees (one of which is female, all are part-time staff members), three Non-executive Directors and a Managing Director. The Company therefore has no women in either executive positions or on the board.

The Group is highly aware of the positive impacts that diversity may bring to an organisation. The Group continues to assess all staff and board appointments on their merits with consideration to diversity a driver in decision making. The Group has not developed or disclosed a formal diversity and policy and therefore has not complied with the recommendations 3.2 and 3.3 of the Corporate Governance Council.

Principle 4: Safeguard integrity in financial reporting

The Group has structured financial management to independently verify and safeguard the integrity of their financial reporting. The structure established by the Group includes:

- Review and consideration of the financial statements by the audit committee;
- A process to ensure the independence and competence of the Group's external auditors.

Recommendations 4.1, 4.2, 4.3: Audit Committee

The audit and risk management committee comprised of Mr Colin Dunsford (Chairman), Mr Donald Stephens and Mr Edward Byrt. Only Mr Colin Dunsford is considered independent and as such, the committee does not comprise of a majority of independent directors. The committee has additionally not adopted or disclosed a formal charter. The Company has therefore not complied with recommendation 4.2, 4.3 and 4.4 of the Corporate Governance Council. The board will annually confirm the membership of the committee.

The committee's primary responsibilities are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- oversee the management of risk within the Group;
- oversee the financial reporting process;
- review the annual and half-year financial reports and recommend them for approval by the board of Directors;
- nominate external auditors;
- review the performance of the external auditors and existing audit arrangements; and
- ensure compliance with laws, regulations and other statutory or professional requirements, and the Group's governance policies.

Principle 5: Make timely and balanced disclosure

The Group has a policy that all shareholders and investors have equal access to the Group's information. The board ensures that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules. The Company Secretary has primary responsibility for all communications with the ASX and is accountable to the board through the Chair.

Recommendations 5.1: Disclosure policy

The Group has not publicly disclosed a formal disclosure policy in accordance with recommendations 5.1 and 5.2 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a disclosure policy to be appropriate at this stage.

Principle 6: Respect the rights of shareholders

The board strives to ensure that Shareholders are provided with sufficient information to assess the performance of the Group and its Directors and to make well-informed investment decisions.

Recommendations 6.1: Communications policy

Information is communicated to Shareholders through:

- annual, half-yearly and quarterly financial reports;
- annual and other general meetings convened for Shareholder review and approval of board proposals;
- continuous disclosure of material changes to ASX for open access to the public; and
- the Group maintains a website where all ASX announcements, notices and financial reports are published as soon as possible after release to ASX.

All information disclosed to the ASX is posted on the Group's web site www.papyrusaustralia.com.au.

The auditor is invited to attend the annual general meeting of Shareholders. The Chairman will permit Shareholders to ask questions about the conduct of the audit and the preparation and content of the audit report.

The Group has not publicly disclosed a communications policy in accordance with recommendations 6.1 and 6.2 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a communications policy to be appropriate at this stage.

Principle 7: Recognise and manage risk

The board has identified the significant areas of potential business and legal risk of the Group. In addition the board has developed the culture, processes and structures of the Company to encourage a framework of risk management which identifies, monitors and manages the material risks facing the organisation.

Recommendations 7.1, 7.2: Risk management policy

The identification, monitoring and, where appropriate, the reduction of significant risk to the Group is the responsibility of the Managing Director and the board. The board reviews and monitors the parameters under which such risks will be managed. Management accounts are prepared and reviewed with the Managing Director at subsequent board meetings. Budgets are prepared and compared against actual results.

Management and the board monitor the Group's material business risks and reports are considered at regular meetings.

The Group has not publicly disclosed a policy for the oversight and management of material business risks in accordance with recommendations 7.1 and 7.4 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider disclosure of a risk management policy to be appropriate at this stage.

Recommendations 7.3: Declaration from Managing Director and Company Secretary

The Managing Director and the Chief Executive will be required to state in writing to the board that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results are in accordance with relevant accounting standards. Included in this statement will be confirmation that the Group's risk management and internal controls are operating efficiently and effectively.

Principle 8: Remunerate fairly and responsibly

The Chairman and the Non-Executive Directors are entitled to draw Director's fees and receive reimbursement of reasonable expenses for attendance at meetings. The Group is required to disclose in its annual report details of remuneration to Directors. The maximum aggregate annual remuneration which may be paid to Non-Executive Directors is \$300,000. This amount cannot be increased without the approval of the Group's shareholders. Please refer to the remuneration report within the Directors' report for details regarding the remuneration structure of the Managing Director and senior management.

Recommendation 8.1: Remuneration Committee

The board has not established a remuneration committee or disclosed a committee charter on the Company website and therefore has not complied with recommendations 8.1 and 8.3 of the Corporate Governance Council. The board takes ultimate responsibility for these matters and does not consider a remuneration committee to be appropriate at this stage.



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7 December 2012

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Mr Pierre Van Der Merwe
Company Secretary
Papyrus Australia Limited
C/- HLB Mann Judd (SA) Pty Ltd
169 Fullarton Road
Dulwich SA 5065

By Email

Dear Pierre,

Papyrus Australia Limited (the "Company")

We refer to the Company's annual report for the year ended 30 June 2012 ("Annual Report") released to the market on 31 October 2012 and the Company's disclosures about its corporate governance practices and in particular its diversity policy.

Listing rule 4.10.3 requires that an entity include in its annual report:

"A statement disclosing the extent to which the entity has followed the recommendations set by the ASX Corporate Governance Council during the reporting period. If the entity has not followed all of the recommendations the entity must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation had been followed for only part of the period, the entity must state the period during which it had been followed."

Principle 3 of the 2010 amendments to the 2nd edition of the ASX Corporate Governance Principles and Recommendations states that Companies should actively promote ethical and responsible decision-making and that:

"Companies should publish their policy concerning diversity, or a summary of that policy, and disclose annually their measurable objectives for achieving gender diversity, their progress toward achieving those objectives and the proportion of women in the whole organisation, in senior management postings and on the board."

More specifically the following recommendations set out in more detail the requirements:-

Recommendation 3.2

"Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them."

Recommendation 3.3

"Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them."

Recommendation 3.4

"Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board."

Recommendation 3.5

"Companies should provide the information indicated in the Guide to reporting on Principle 3."

The Listed Entities Updates dated 1 October 2010 and 7 February 2012 reminded listed entities of their obligation to report under the 2010 amendments to the 2nd edition of the ASX Corporate Governance Principles and Recommendations as set out above in their annual report for their first financial year commencing on or after 1 January 2011.

ASX Listings ("ASXL") has reviewed the Annual Report of the Company and notes it has not addressed the recommendations set by the ASX Corporate Governance Council. Furthermore, ASXL has reviewed the diversity policy disclosures and could not identify a statement in the Annual Report confirming whether the Company had followed or not followed all the diversity recommendations of the Council and providing relevant disclosures.

ASXL attaches particular importance to encouraging a consistently high standard of listed entities' disclosures about the Council's corporate governance recommendations.

In light of the Company's non-disclosure in respect of the ASX Corporate Governance Principles and the diversity recommendations in its Annual Report, ASXL requires that the Company make additional disclosure to the market in compliance with listing rule 4.10.3 about the extent to which the Company has followed or not followed each of the recommendations of the Council.

The additional disclosure should be sent to me by e-mail at Cormac.Murphy@asx.com.au. It should not be sent to ASX Market Announcements. This is requested as soon as possible and, in any event, not later than **9:30am E.S.T. on Thursday, 13 December 2012**.

Under listing rule 18.7A, a copy of this letter and the additional disclosure will be released to the market, so your response should be presented in a suitable form.

Should the Company fail to do so, ASXL may consider suspending the Company's securities from quotation until the Company releases to the market the required information.

If you have any queries about this letter, or about the Council's recommendations and the Company's reporting obligations in relation to those recommendations, please contact me immediately.

Yours sincerely



Cormac Murphy
Adviser, Listings Compliance