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Papyrus Australia Limited

ABN 63 110 868 409

Preliminary Final ASX Report

for the year ended 30 June 2009

Results for announcement to the market	2009	2008		Percentage change
	\$	\$		
Revenues from ordinary activities	281,976	145,114	up	94%
Loss from ordinary activities after tax attributable to the members	1,806,874	1,863,725	down	3%
Loss for the period attributable to members	1,806,874	1,863,725	down	3%

Dividends (distributions)

No dividends have been paid during the financial year ended 30 June 2009

The directors have not proposed a dividend for the year end 30 June 2009

Net Tangible Assets Per Security - cents	2009	2008
	\$0.009	\$0.054

Audit Status

The financial statements contained within this Appendix 4E is based on accounts which are in the process of being audited.

Basis of Financial Report Preparation

This financial report is for the year ended 30 June 2009 and has been prepared in accordance with the Australian Stock Exchange Listing rules as they relate to Appendix 4E and in accordance with the Corporations Act 2001. The accounting policies adopted with the contents of this report are consistent with those of the previous financial year and corresponding interim reporting period. Comments are for the twelve months ended 30 June 2009 with comparatives for the twelve months ended 30 June 2008 shown in parentheses. All amounts are measured in Australian Dollars, unless otherwise specified.

Review of Papyrus Australia Ltd 2009 Results

Corporate

During the financial year:-

1,197,120 unlisted options were converted to shares at 25 cents per share.

2,756,600 shares were issued at 44 cents per share through a share placement.

2,854,684 shares were issued at 44 cents per share through a share purchase plan.

During the financial year 400,000 unlisted options were granted to key management personnel.

Review of Papyrus Australia Ltd 2009 Results (Cont.)

The net funds raised from the conversion of listed options, the share placement and the share purchase plan will be applied for engineering design and construction and to deliver on the Company's milestones to take its Banana Ply (BPP) Technology to commercial production and working capital.

Operational Activities

The Papyrus Australia Ltd technology arrived at the Mount Uncle plantation in the heart of the Atherton Tablelands banana growing region in August, 2008.

The Company successfully completed the construction of the first commercial factory on schedule. The Company has successfully installed all plant, equipment and machinery necessary to operate the Walkamin Production Facility.

Since the re-location of the pilot plant in August 2008 to the site, the Company has successfully designed and is well advanced in developing a harvesting, transport and logistical infrastructure to integrate the banana tree trunk harvesting activities into the existing banana fruit production.

The Company has also obtained all necessary approvals from local Governments, Primary Industry, Quarantine authorities, and others to allow it to run the production facility on a commercial scale.

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Income Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue from operating activities	2 (a)	281,976	145,114	281,976	145,114
Other income	2 (b)	28,611	-	35,617	-
Depreciation expense	2 (c)	(21,172)	(8,641)	(9,116)	(5,623)
Employee benefits expenses	2 (d)	(795,443)	(978,164)	(781,500)	(978,164)
Other expenses	2 (e)	(1,273,997)	(1,022,034)	(1,266,013)	(1,022,034)
Loss before income tax benefit		(1,780,025)	(1,863,725)	(1,739,036)	(1,860,707)
Income tax expense		(26,849)	-	(26,849)	-
Loss from ordinary activities after income tax expense		(1,806,874)	(1,863,725)	(1,765,885)	(1,860,707)
Loss attributable to members of the parent entity		(1,806,874)	(1,863,725)	(1,765,885)	(1,860,707)
Earnings per share:		<i>Cents</i>	<i>Cents</i>		
Basic earnings per share	3	(2.57)	(3.27)		
Diluted earnings per share	3	(2.57)	(3.27)		

Balance Sheet

AS AT 30 JUNE 2009

	Note	Consolidated		Parent	
		2009 \$	2008 \$	2009 \$	2008 \$
CURRENT ASSETS					
Cash and cash equivalents	4	1,129,564	2,145,022	1,129,350	2,144,808
Trade and other receivables	5	188,200	75,235	166,487	75,235
Other current assets	6	102,934	-	102,934	-
TOTAL CURRENT ASSETS		1,420,698	2,220,257	1,398,771	2,220,043
NON-CURRENT ASSETS					
Trade and other receivables	5	-	-	493,408	375,709
Other financial assets	9	-	-	230,085	230,085
Property, plant and equipment	7	2,820,655	1,777,919	2,624,434	1,766,091
Intangible assets	8	4,755,253	2,583,694	4,121,584	2,003,671
TOTAL NON-CURRENT ASSETS		7,575,908	4,361,613	7,469,511	4,375,556
TOTAL ASSETS		8,996,606	6,581,870	8,868,282	6,595,599
CURRENT LIABILITIES					
Trade and other payables	10	965,309	247,259	761,823	226,815
Short-term provisions	11	72,656	56,067	72,656	56,067
TOTAL CURRENT LIABILITIES		1,037,965	303,326	834,479	282,882
NON-CURRENT LIABILITIES					
Other non-current liabilities	12	2,501,230	1,932,596	2,501,230	1,932,596
TOTAL NON-CURRENT LIABILITIES		2,501,230	1,932,596	2,501,230	1,932,596
TOTAL LIABILITIES		3,539,195	2,235,922	3,335,709	2,215,478
NET ASSETS		5,457,411	4,345,948	5,532,573	4,380,121
EQUITY					
Share capital	13	11,273,337	8,567,800	11,273,337	8,567,800
Reserves	14	538,715	325,915	538,715	325,915
Retained earnings		(6,354,641)	(4,547,767)	(6,279,479)	(4,513,594)
TOTAL EQUITY		5,457,411	4,345,948	5,532,573	4,380,121

Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

		Consolidated				Parent			
		Share Capital Ordinary	Retained Earnings	Share Option Reserves	Total	Share Capital Ordinary	Retained Earnings	Reserves	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 June 2007		6,333,275	(2,684,042)	157,982	3,807,215	6,333,275	(2,652,887)	157,982	3,838,370
Shares issued upon exercise of listed options	13	1,920,870	-	-	1,920,870	1,920,870	-	-	1,920,870
Shares issued as settlement of long term loan in Company subsidiary	13	313,655	-	-	313,655	313,655	-	-	313,655
Share-based payments	15	-	-	167,933	167,933	-	-	167,933	167,933
(Loss) attributable to members of the parent entity		-	(1,863,725)	-	(1,863,725)	-	(1,860,707)	-	(1,860,707)
Balance at 30 June 2008		8,567,800	(4,547,767)	325,915	4,345,948	8,567,800	(4,513,594)	325,915	4,380,121
		Consolidated				Parent			
		Share Capital Ordinary	Retained Earnings	Reserves	Total	Share Capital Ordinary	Retained Earnings	Reserves	Total
		\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 January 2008		8,567,800	(4,547,767)	325,915	4,345,948	8,567,800	(4,513,594)	325,915	4,380,121
Shares issued upon exercise of options	13	299,280	-	-	299,280	299,280	-	-	299,280
Shares issued pursuant to Share Purchase Plan	13	1,256,000	-	-	1,256,000	1,256,000	-	-	1,256,000
placements	13	1,212,904	-	-	1,212,904	1,212,904	-	-	1,212,904
(Loss) attributable to members of the parent entity		-	(1,806,874)	-	(1,806,874)	-	(1,765,885)	-	(1,765,885)
Transaction costs (net of tax)	13	(62,647)	-	-	(62,647)	(62,647)	-	-	(62,647)
Share-based payments	15	-	-	212,800	212,800	-	-	212,800	212,800
Balance at 30 June 2009		11,273,337	(6,354,641)	538,715	5,457,411	11,273,337	(6,279,479)	538,715	5,532,573

Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2009

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	199,232	63,548	199,232	63,548
R&D tax offset	542,894	-	542,894	-
Payments to suppliers and employees	(2,123,416)	(2,248,224)	(2,098,271)	(2,248,224)
Grant funds received	98,030	938,703	98,030	938,703
Interest received	97,169	125,488	97,169	125,488
NET CASH USED IN OPERATING ACTIVITIES	4 (a)	(1,186,091)	(1,160,946)	(1,120,485)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,392,172)	(237,597)	(1,392,172)	(237,597)
Proceeds from sale of property, plant and equipment	17,868	-	46,368	-
Purchase of development costs	(1,133,752)	(610,831)	(1,133,752)	(610,831)
Loan to wholly-owned subsidiaries	-	-	(53,645)	-
NET CASH USED IN INVESTING ACTIVITIES		(848,428)	(2,533,201)	(848,428)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares	2,768,184	1,920,870	2,768,184	1,920,870
Transaction costs of issue of shares	(89,495)	-	(89,495)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		1,920,870	2,678,689	1,920,870
Net (decrease) in cash and cash equivalents	(1,015,458)	(48,043)	(1,015,458)	(48,043)
Cash at the beginning of the reporting period	2,145,022	2,193,065	2,144,808	2,192,851
CASH AT THE END OF THE REPORTING PERIOD	1,129,564	2,145,022	1,129,350	2,144,808

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has been prepared on a historical cost basis.

b. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2009.

This financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2009 and any public announcements made by Papyrus Australia Limited during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of Papyrus Australia Ltd and its subsidiaries as at 30 June each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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d. Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

e. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial asset.

f. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

g. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

h. 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 whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

i. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

j. Trade and other receivables

All debtors are recognised at cost less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect on all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

k. Income tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

I. Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

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m. Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line over the estimated useful life of the assets as follows:

Plant and equipment 2.5 - 10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in a combination of functional expense items.

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n. Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are expensed against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

o. Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

p. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost.

q. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

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r. Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

s. Share-based payment transactions

The Group provides benefits to employees and consultants of the Group in the form of share-based payments, whereby employees or consultants receive option incentives (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued. The fair value is determined using the Black Scholes option pricing model.

Upon the exercise of options, the balance of share based payments reserve relating to those options is transferred to share capital.

t. Contributed equity

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.

u. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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2. REVENUE AND EXPENSES

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
REVENUE				
<i>(a) Revenue from operating activities</i>				
Interest received from other parties	87,025	115,949	87,025	115,949
Sales revenue	194,951	-	194,951	-
Other revenue	-	29,165	-	29,165
	<u>281,976</u>	<u>145,114</u>	<u>281,976</u>	<u>145,114</u>
<i>(b) Other income</i>				
Net profit on disposal of property, plant and equipment	4,071	-	11,077	-
Export Market Development Grant	24,540	-	24,540	-
	<u>28,611</u>	<u>-</u>	<u>35,617</u>	<u>-</u>
EXPENSES				
<i>(c) Depreciation of non-current assets</i>				
Plant and equipment	21,172	8,641	9,116	5,623
Total depreciation	<u>21,172</u>	<u>8,641</u>	<u>9,116</u>	<u>5,623</u>
<i>(d) Employees benefits expense</i>				
Wages, salaries, directors fees and other remuneration expenses	928,984	1,190,776	915,041	1,190,776
Superannuation expense	50,868	81,020	50,868	81,020
Transfer to annual leave provision	16,589	7,512	16,589	7,512
Share-based payments expense	212,800	167,933	212,800	167,933
Transfer to capitalised intangibles and plant and equipment	(413,798)	(469,077)	(413,798)	(469,077)
Total employee benefits expense	<u>795,443</u>	<u>978,164</u>	<u>781,500</u>	<u>978,164</u>
<i>(e) Other expenses</i>				
Audit fees	27,800	26,200	27,800	26,200
Professional service	266,506	303,784	266,176	303,784
Travel and accomodation	116,175	95,744	115,642	95,744
Directors fees	169,169	160,000	169,169	160,000
Company secretarial	32,700	30,000	32,700	30,000
Rent and and communications	121,697	218,516	116,888	218,516
Patent expenses	-	36,787	-	36,787
Share registry and ASX expenses	89,859	65,178	89,859	65,178
Marketing expenses	65,263	10,274	65,263	10,274
Contractors	75,098	-	75,098	-
Freight expenses	58,230	1,597	58,230	1,597
Motor vehicle costs	77,179	71,340	74,867	71,340
Other expenses	174,321	2,614	174,321	2,614
	<u>1,273,997</u>	<u>1,022,034</u>	<u>1,266,013</u>	<u>1,022,034</u>

3. EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	Consolidated	
	2009	2008
	\$	\$
Net loss attributable to ordinary equity holders of the parent	(1,806,874)	(1,863,725)
	2009	2008
Weighted average number of ordinary shares for basic earnings per share	70,436,336	57,066,150
Effect of dilution		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	70,436,336	57,066,150
Earnings per share:	<i>Cents</i>	<i>Cents</i>
Basic earnings per share	(2.57)	(3.27)
Diluted earnings per share	(2.57)	(3.27)

In accordance with AASB 133 'Earnings per Share', as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taking into account.

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
4. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	329,564	447,694	329,350	447,480
Short-term deposits	800,000	1,697,328	800,000	1,697,328
	1,129,564	2,145,022	1,129,350	2,144,808

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

Reconciliation to Cash Flow Statement

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

Cash at banks and in hand	329,564	447,694	329,350	447,480
Short-term deposits	800,000	1,697,328	800,000	1,697,328
	<u>1,129,564</u>	<u>2,145,022</u>	<u>1,129,350</u>	<u>2,144,808</u>

4(a) Reconciliation of net loss after tax to net cash flows from operations

Net loss	(1,806,874)	(1,863,725)	(1,765,885)	(1,860,707)
<i>Adjustments for non-cash items:</i>				
Depreciation	21,172	8,641	9,116	5,623
Share-based payments	212,800	167,933	212,800	167,933
Non cash tax expense	26,849	-	26,849	-
Net profit on disposal of property, plant and equipment	(4,071)	-	(11,077)	-
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(112,964)	34,383	(91,252)	34,383
Increase in other current assets	(102,934)	-	(102,934)	-
Decrease in trade and other payables	(5,292)	(927,632)	(23,786)	(927,632)
Increase in provisions	16,589	7,512	16,589	7,512
Increase in deferred income	568,634	1,452,403	568,634	1,452,403
Net cash from operating activities	<u>(1,186,091)</u>	<u>(1,120,485)</u>	<u>(1,160,946)</u>	<u>(1,120,485)</u>

5. TRADE AND OTHER RECEIVABLES

Current

Trade debtors	27,003	-	27,003	-
GST receivable	154,394	49,427	132,681	49,427
Other debtors	6,803	25,808	6,803	25,808
	<u>188,200</u>	<u>75,235</u>	<u>166,487</u>	<u>75,235</u>

Non-current

Amounts receivable from:				
- Wholly owned subsidiaries	-	-	493,408	375,709
	<u>-</u>	<u>-</u>	<u>493,408</u>	<u>375,709</u>

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6. OTHER CURRENT ASSETS

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

7. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$
Plant and equipment				
<i>Cost</i>				
Opening balance	99,568	98,392	50,844	49,666
Additions	35,748	1,176	35,694	1,178
Disposals	-	-	(28,487)	-
	135,316	99,568	58,051	50,844
<i>Accumulated depreciation</i>				
Opening balance	56,299	47,658	19,403	13,780
Depreciation for the year	21,172	8,641	9,116	5,623
Disposals	(6,992)	-	(6,992)	-
	70,479	56,299	21,527	19,403
Net book value of plant and equipment	64,837	43,269	36,524	31,441
Capital works in progress				
<i>Cost</i>				
Opening balance	1,734,650	1,498,229	1,734,650	1,498,229
Additions	1,958,116	236,421	1,790,208	236,421
Disposals	(14,859)	-	(14,859)	-
Transfer to intangibles	(922,089)	-	(922,089)	-
Net book value of capital works in progress	2,755,818	1,734,650	2,587,910	1,734,650
Total net book value of property, plant and equipment	2,820,655	1,777,919	2,624,434	1,766,091

8. INTANGIBLE ASSETS

	Consolidated		Parent	
	2009 \$	2008 \$	2009 \$	2008 \$
Patents and intellectual property				
Cost				
Opening balance	580,023	580,023	-	-
Additions	53,646	-	-	-
Net book value of plant and equipment	633,669	580,023	-	-
Development costs				
Cost				
Opening balance	2,003,671	1,392,840	2,003,671	1,392,840
Additions	1,195,824	610,831	1,195,824	610,831
Transfer from plant and equipment	922,089	-	922,089	-
Net book value of capital works in progress	4,121,584	2,003,671	4,121,584	2,003,671
Total net book value of intangible assets	4,755,253	2,583,694	4,121,584	2,003,671

9. OTHER FINANCIAL ASSETS

Investment in wholly owned subsidiaries	-	-	230,085	230,085
	-	-	230,085	230,085

Refer to note 16 for a list of the Company's ownership in its subsidiaries and joint ventures.

10. TRADE AND OTHER PAYABLES

Trade payables (i)	818,500	172,859	615,014	152,415
Sundry payables and accrued expenses	146,809	74,400	146,809	74,400
	965,309	247,259	761,823	226,815

11. SHORT-TERM PROVISIONS

Opening balance	56,067	48,555	56,067	48,555
Net increase in provision during financial year	16,589	7,512	16,589	7,512
	72,656	56,067	72,656	56,067

12. OTHER NON-CURRENT LIABILITIES

Deferred income - Government Grant	2,501,230	1,932,596	2,501,230	1,932,596
	2,501,230	1,932,596	2,501,230	1,932,596

13. ISSUED CAPITAL

74,790,412 fully paid ordinary shares (2008: 67,982,008)	11,273,337	8,567,800	11,273,337	8,567,800
	11,273,337	8,567,800	11,273,337	8,567,800

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	2009		2008	
	Number	\$	Number	\$
Ordinary shares				
Balance at beginning of year	67,982,008	8,567,800	57,743,245	6,333,275
Shares issued upon exercise of listed options at various dates	1,197,120	299,280	9,604,350	1,920,870
Shares issued pursuant to Share Purchase Plan	2,854,684	1,256,000	634,413	313,655
Shares issued pursuant to private placements	2,756,600	1,212,904	-	-
Transaction costs (net of tax)	-	(62,647)	-	-
Balance at end of financial year	74,790,412	11,273,337	67,982,008	8,567,800

	Consolidated		Parent	
	2009	2008	2009	2008
	\$	\$	\$	\$

14. RESERVES

Reserves

Share-option reserve	538,715	325,915	538,715	325,915
	538,715	325,915	538,715	325,915
Share-option reserve				
Balance at beginning of financial year	325,915	157,982	325,915	157,982
Issue of options to employees and officers under Employee Share Option Plan	212,800	167,933	212,800	167,933
Balance at end of financial year	538,715	325,915	538,715	325,915

15. SHARE BASED PAYMENTS

Employee Share Option Plan

The Company has established the Papyrus Australia Ltd Employee Share Option Plan and a summary of the Rules of the Plan are set out below:

- All employees (full time and part time) will be eligible to participate in the Plan.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue (provided all relevant vesting conditions, if applicable, have been met. Options will be issued free. The exercise price of options will be determined by the board. The total number of shares the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.

- If, prior to the expiry date of options, a person ceases to be an employee of a Group company for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 30 days from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The board may amend the Plan Rules subject to the requirements of the Listing Rules.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) and movements in share options issued during the year (including those issues outside of the ESOP plan):

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	28,983,155	0.30	37,587,505	0.25
Granted during the year	400,000	1.63	1,000,000	1.03
Exercised during the year	(1,197,120)	0.25	(9,604,350)	0.20
Outstanding at the end of the year	<u>28,186,035</u>	<u>0.32</u>	<u>28,983,155</u>	<u>0.30</u>
Exercisable at the end of the year	<u>27,286,035</u>	<u>0.28</u>	<u>27,483,155</u>	<u>0.27</u>

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 was 0.94 years (2008: 1.89 years).

The range of exercise prices for options outstanding at the end of the year was \$0.25 - \$1.75 (2008: \$0.25 - \$1.25).

The weighted average fair value of options granted during the year was \$0.20 (2008: \$0.51).

The fair value of all share options are measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the years ended 30 June 2009 and 30 June 2008.

	2009	2008
Weighted Average Exercise price	1.63	1.03
Weighted Average Volatility	77.82%	72.40%
Weighted Average Risk-free interest rate (%)	5.18%	6.43%
Expected life of option (years)	5.00	5.00
Dividend rate	0%	0%

16. INTEREST IN SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
<u>Parent entity</u>			
Papyrus Australia Ltd	Australia		
<u>Subsidiaries</u>			
PPY Engineering Pty Ltd	Australia	100	-
Papyrus Technology Pty Ltd	Australia	100	100
PPY Manufacturing Pty Ltd	Australia	100	-
Australian Advanced Manufacturing Centre Pty Ltd	Australia	100	-
Pulp Fiction Manufacturing Pty Ltd	Australia	50	-

17. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 3 August 2009, 7 August 2009 and 24 August 2009, the Company announced the exercise of 4,735,000 unlisted options. This has resulted in gross proceeds of \$1,314,625 being received by the Company and will have the effect of increasing the share capital in the Company by that same amount.

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COMPLIANCE STATEMENT

1. This report has been prepared in accordance with AASB Standards, other authoritative pronouncements and Urgent Issues Group Consensus Views.
2. This report gives a true and fair view of the matters disclosed.
3. This report is based on accounts which are in the process of being audited



Donald Stephens
Director

28 August 2009

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