Papyrus

Company Announcements Office
Australian Stock Exchange Limited

Stage 1 Veneering process successfully completed ahead of schedule

As set out in the Prospectus issued in relation to the admission of the Company to ASX on 15 April 2005, the Company's project for development of a production facility capable of producing 20,000 tonnes of Banana Ply Paper (BPP) was to be completed in six stages (see page 15 of the Prospectus).

Stage 1 related primarily to engineering design for the production line, building the trunk-in feed facility for the plant and building the round-up and core lathe and construction of the curing ovens.

The independent consulting engineer's report contained in the Prospectus identified the achievement of the design production rate as comprising the "main risk" associated with production costs.

The Company is pleased to announce that:

1. It has completed the initial engineering work as set in stage 1;

2. It has successfully completed building the "round up and core lathe";

3. Tests on veneering the core of the banana tree trunk have run successfully at 2m/sec producing excellent quality, continuous, constant and consistent thin sheet of fibre.

   This is a significant increase in speed beyond that reported by the consultant engineer in their independent engineer's report where they reported that the then veneering machine was well developed and was capable of production of veneer of around 1 millimetre thickness at a rate of 0.8m/sec.

   The engineering report stated that the speed of 0.8m/sec would need to be increased by a factor of 3 to get the Stage 6 design capacity of 20,000 metric tonnes per annum. The present results of Stage One tests indicate that we have already substantially achieved that target by having increased the speed by a factor of 2.5.

The Company expects that the additional scale up to the factor of 3 times will be readily achievable and considers that the production risk referred to as the main risk to achievement of the designed production rate has been successfully met.

The fibre-sheets produced from the coring lathe are the basic building blocks in the whole production line for production of BPP. Those sheets are to be placed on top of each other at right angle to produce a structure with strength in all directions. This process is called the lamination process and is part of Stage Three of the project. The assembled (laminated) sheets of fibre then enter the curing process.

4. The curing oven which is part of stage one is currently under construction. On being cured the product becomes raw BPP ready for sale.

5. In tests to date, the Company has successfully cured laminated sheets so as to create limited product which is available for testing for further development of raw BPP into product by application of coatings and other technologies referred to in the independent product and market report by Professor John Garnett as contained in the Prospectus.

Papyrus now has the capacity to produce the quantities of fibre-sheets needed to test the curing oven to finalise Stage One ahead of schedule.

With completion of stage 1 engineering works and the work being carried out in relation to the curing oven, the Company is well placed to move through stages 2 and 3.

Stage 4 is the integration of two additional lathes configured at 90 degrees to the existing production line and the addition of further modules to the curing oven to result in an integrated production line. The success in stage 1 with the development of a lathe as reported above will facilitate achievement of stage 4.

Stage 5 represents a scale up of that then production line and the shipping of that production line to facilities to be chosen in North Queensland to enable the line to be commissioned and begin trial production.

The Company will make further announcements in due course as additional developments take place.

Ramy Azer
Managing Director