

Appendix 4D

PAPYRUS AUSTRALIA LTD

ABCN 63 110 868 409

Half year report Period ending on 31 December 2007

Results for announcement to the market	2007 \$	2006 \$	Percentage change
Revenue from ordinary activities	49,446	63,828	-22.5%
(Loss) from ordinary activities after tax attributable to members	(905,528)	(536,972)	+68.6%
(Loss) from ordinary activities attributable to members	(905,528)	(536,972)	+68.6%

As the company remains in the development phase, with the focus on the engineering activities associated with production testing of the first commercial factory and establishment of strategic alliances, no revenue stream was generated and the loss is in line with the director's expectations.

No dividends have been paid or proposed during the period.

Corporate Overview

Applications for the conversion of 998,530 listed options to ordinary shares were received during the reporting period. The conversion of these options has raised additional funds of \$199,706.

8,370,000 listed options (exercise price 20 cents per share) are exercisable by 31 March 2008.

A long term liability of \$313,655 was extinguished by the issue of 634,413 ordinary shares at a deemed issue price of \$0.4944 cents per share.

The Board has undertaken a comprehensive strategic review assisted by a team of external advisors with extensive corporate experience including specific paper industry knowledge. Implementation of the strategic plan resulting from the review has commenced and will continue to be implemented over the coming months.

Operational Activities

The Company continued to work with selected customers on the continuing process of product and specification development. Heads of Agreement (HOA) were signed with a specific customer for each general group of applications ranging from decorative and functional veneers, speciality packaging, industrial packaging and food packaging applications.

Appendix 4D

Half year report

Each of these customers has access to specific markets for the Papyrus products and will continue to work with the company to complete the development work required. In addition, these Companies will prepare detailed sales and marketing plans for the distribution and sale of the Papyrus products in the markets to which they each have access.

Quantities of product have been supplied to the customers for the purpose of trial and evaluation. As the process continues, the Company will supply additional quantities and samples to complete the process of developing product specifications that will control the manufacture of the products in the longer term.

Development of customer specifications and the machine settings required to produce consistent product will continue into 2008, with the specific aim of garnering forward orders for product.

The Papyrus technology protection process involves the lodgement of patent applications worldwide. These applications have been made in the 126 contracting states of the PCT, with a priority date of 16 September 2004. The Company has entered the national phase of patent applications in both PCT and non-PCT contracting states, with non PCT countries including Malaysia, Taiwan, Thailand, Argentina, Bolivia, Peru and Venezuela.

The final stage of the commercialisation process involves commissioning the first commercial manufacturing line and performing all of the tests necessary to prove the capability of the technology to manufacture a range of products with broad market appeal. This includes a detailed examination of all mechanical aspects of the line to confirm expected functionality and capacity. Prepared product recipes for production sampling independent testing and customer analysis. In addition, a detailed examination of all relevant programming required as this will provide the environment in which specific product recipes will be developed, in consultation with our identified Customer groups.

During the reporting period, the Company appointed two new senior Executives to assist in the commercialisation process:

- Bill Halliday (General Manager – Engineering) comes to Papyrus with extensive Engineering Management experience working with Companies such as Mistral and Clipsal. Bill is responsible for all aspects of Engineering, with a specific focus on the design and construction of field versions of the Papyrus Technology that will be capable of manufacturing products in remote locations, close to raw material sources.
- Tony Cichonski (General Manager – Production) comes to Papyrus with extensive Operations Management experience in the paper industry with Companies such as Carter Holt Harvey and Amcor. Tony will be responsible for all operational and logistical aspects of the Papyrus Technology, with specific focus on Operations in remote locations, close to raw material sources.

1. Dividends

No dividends have been paid or proposed during the half year.

2. Retained Profits

	Consolidated 2007 \$	Consolidated 2006 \$
Opening retained (loss)	(2,684,042)	(1,306,120)
Net (loss) after tax attributable to members of Papyrus Australia Ltd	(905,528)	(536,972)
Dividends provided for or paid	-	-
Retained (loss) at end of the period	(3,589,570)	(1,843,092)

3. Net Tangible Assets per Security

Net Tangible Assets	1,139,677	2,740,096
Number of securities	59,376,208	56,600,000
NTA	\$0.019	\$0.048

4. Changes in controlled Entities

None

5. Review Statement

The attached interim report has been reviewed

PAPYRUS AUSTRALIA LTD

ACN 110 868 409

INTERIM FINANCIAL REPORT

31 DECEMBER 2007

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

DIRECTORS REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2007 and review report thereon.

DIRECTORS

The directors of the Company who held office during the reporting period:

Dr. David M Wyatt	Chairman since 2004
Mr. Ramy A Azer	Managing Director since 2004
Mr. Donald C Stephens	Director since 2004
Mr. Edward M Byrt	Director since 2004
Mr. Graeme A Menzies	Director since 2004
Mr. Christopher D Smerdon	Director since 2004

REVIEW OF OPERATIONS

Corporate

\$199,706 was raised through the conversion of 998,530 listed options.

A long term liability of \$313,655 was extinguished by the issue of 634,413 ordinary shares at a deemed ordinary share price of \$0.4944 per share.

The Papyrus Board has undertaken a comprehensive strategic review assisted by a team of external advisors with extensive corporate experience including specific paper industry knowledge. Implementation of the strategic plan resulting from the review has commenced and will continue to be implemented over the coming months.

Marketing / Administration

The Company continued to work with selected customers on the continuing process of product and specification development. Heads of Agreement (HOA) were signed with a specific customer for each general group of applications ranging from decorative and functional veneers, specialty packaging, industrial packaging and food packaging applications.

Each of these customers has access to specific markets for the Papyrus products and will continue to work with the Company to complete the development work required. In addition, these Companies will prepare detailed sales and marketing plans for the distribution and sale of the Papyrus products in the markets to which they each have access.

Quantities of product have been supplied to the customers for the purpose of trial and evaluation. As the process continues, the Company will supply additional quantities and samples to complete the process of developing product specifications that will control the manufacture of the products in the longer term.

Development of customer specifications and the machine settings required to produce consistent product will continue into 2008, with the specific aim of garnering forward orders for product.

The Papyrus technology protection process involves the lodgement of patent applications worldwide. These applications have been made in the 126 contracting states of the PCT, with a priority date of 16 September 2004. The Company has entered the national phase of patent applications in both PCT and non-PCT contracting states, with non PCT countries including Malaysia, Taiwan, Thailand, Argentina, Bolivia, Peru and Venezuela.

**DIRECTORS REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007 (CONT)**

REVIEW OF OPERATIONS (CONT.)

Engineering

The Company is well into the final phase of the commercialisation process.

The final stage of the commercialisation process involves commissioning the first commercial manufacturing line and performing all of the tests necessary to prove the capability of the technology to manufacture a range of products with broad market appeal.

This includes a detailed examination of all mechanical aspects of the line to confirm expected functionality and capacity. Prepared product recipes for production sampling independent testing and customer analysis, In addition, a detailed examination of all relevant programming required as this will provide the environment in which specific product recipes will be developed, in consultation with our identified Customer groups.

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AUDITOR'S DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Grant Thornton, to provide the directors of Papyrus Australia Ltd with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration forms part of this Director's Report.

Signed in accordance with a resolution of the Board of Directors.



Ramy Azer
Managing Director

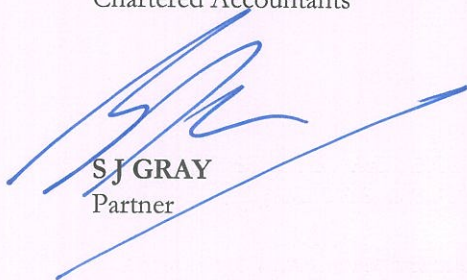
Dated this the 14th day of February 2008

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF PAPYRUS AUSTRALIA LTD**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Papyrus Australia Ltd for the half-year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide this 14 day of February 2008

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

CONSOLIDATED INTERIM INCOME STATEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Note	Consolidated Entity	
		31 December 2007 \$	31 December 2006 \$
Continuing Operations			
Finance income		49,446	63,828
Employee & director benefits expense		(551,516)	(315,511)
Depreciation expense		(4,229)	(5,400)
Insurance and registry costs		(71,463)	(95,409)
Legal & Professional Services		(71,607)	(35,400)
Patents and Trademarks		(25,054)	(8,050)
Rent & Outgoings		(89,085)	(17,005)
Audit and accounting fees		(21,700)	(28,000)
Administration Costs		(70,477)	(51,790)
Other expenses		(49,843)	(13,035)
Results from operating activities		<u>(905,528)</u>	<u>(505,772)</u>
Loss before income tax			
Income tax expense		<u>-</u>	<u>(31,200)</u>
Loss for the period		<u>(905,528)</u>	<u>(536,972)</u>
		Cents	Cents
Basic earnings per share		(1.5)	(1.1)
Diluted earnings per share		(1.5)	(1.1)

The income statement is to read in conjunction with the condensed notes to the consolidated interim financial report set out in pages 8 to 9

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

CONSOLIDATED INTERIM BALANCE SHEET
AS AT 31 DECEMBER 2007

	Note	Consolidated Entity	
		31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		1,210,794	2,193,065
Trade and other receivables		51,711	109,618
TOTAL CURRENT ASSETS		<u>1,262,505</u>	<u>2,302,683</u>
NON-CURRENT ASSETS			
Plant & equipment		1,677,000	1,548,963
Intangible assets		2,330,405	1,972,863
TOTAL NON-CURRENT ASSETS		<u>4,007,405</u>	<u>3,521,826</u>
TOTAL ASSETS		<u>5,269,910</u>	<u>5,824,509</u>
CURRENT LIABILITIES			
Trade and other payables		255,033	1,174,891
Short-term provisions		40,584	48,555
TOTAL CURRENT LIABILITIES		<u>295,617</u>	<u>1,223,446</u>
NON-CURRENT LIABILITIES			
Trade and other payables		-	313,655
Other non-current liabilities	6	1,504,211	480,193
TOTAL NON-CURRENT LIABILITIES		<u>1,504,211</u>	<u>793,848</u>
TOTAL LIABILITIES		<u>1,799,828</u>	<u>2,017,294</u>
NET ASSETS		<u>3,470,082</u>	<u>3,807,215</u>
EQUITY			
Issued capital		6,846,635	6,333,275
Share option reserve		213,017	157,982
Retained earnings		(3,589,570)	(2,684,042)
TOTAL SHAREHOLDERS' EQUITY		<u>3,470,082</u>	<u>3,807,215</u>

The balance sheet is to read in conjunction with the condensed notes to the consolidated interim financial report set out in pages 8 to 9

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Share Capital	Share Options Reserve	Retained Earnings	Total Equity
Balance at 1 July 2006	4,033,434	146,681	(1,306,120)	2,873,995
Total recognised income and expenses	-	6,664	(536,972)	(530,308)
Issue of ordinary shares - placement	2,080,000	-	-	2,080,000
Issue of ordinary shares - options exercised	5,400	-	-	5,400
Transaction costs (net of tax)	(72,800)	-	-	(72,800)
Balance at 31 December 2006	<u>6,046,034</u>	<u>153,345</u>	<u>(1,843,092)</u>	<u>4,356,287</u>
Balance at 1 July 2007	6,333,275	157,982	(2,684,042)	3,807,215
Total recognised income and expenses	-	55,035	(905,528)	(850,493)
Issue of ordinary shares - Loan Conversion	313,655	-	-	313,655
Issue of ordinary shares - options exercised	199,705	-	-	199,705
Balance at 31 December 2007	<u>6,846,635</u>	<u>213,017</u>	<u>(3,589,570)</u>	<u>3,470,082</u>

The statement of change in equity is to read in conjunction with the condensed notes to the consolidated interim financial report set out in pages 8 to 9

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

	Note	Consolidated Entity	
		31 December 2007 \$	31 December 2006 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		135,725	61,047
Grant funding received		712,895	560,380
Payments to suppliers and employees		<u>(1,540,789)</u>	<u>(618,052)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		<u>(692,169)</u>	<u>3,375</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property plant & equipment including production line		(132,266)	(6,531)
Payment of Development costs		<u>(357,542)</u>	<u>(335,311)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		<u>(489,808)</u>	<u>(341,842)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		199,706	2,085,400
Payment of transaction costs		<u>-</u>	<u>(104,000)</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		<u>199,706</u>	<u>1,981,400</u>
Net increase/(decrease) in cash held		(982,271)	1,642,933
Cash at 1 July		<u>2,193,065</u>	<u>2,144,009</u>
Cash at 31 December		<u><u>1,210,794</u></u>	<u><u>3,786,942</u></u>

The statement of cash flows is to read in conjunction with the condensed notes to the consolidated interim financial report set out in pages 8 to 9

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

1. **REPORTING ENTITY**

Papyrus Australia Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the "consolidated entity").

The consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2007 is available upon request from the Company's registered office at Ground Floor Elizabeth House 231 North Terrace Adelaide South Australia 5000 or at www.papyrusaustralia.com.au.

2. **STATEMENT OF COMPLIANCE**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial report does not include all of the information required in a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the consolidated entity as at and for the year ended 30 June 2007.

The consolidated interim financial report was approved by the Board of Directors on 9 February 2007.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the consolidated entity in this consolidated interim financial report are the same as those applied by the consolidated entity in its consolidated financial report as at and for the year ended 30 June 2007.

4. **SUBSEQUENT EVENT**

Subsequent to the interim balance sheet date, a Commercial Ready Grant variation of \$349,472 was approved by the Department of Innovation Industry, Science and Research, which brings the total Commercial Ready Grant receivable to \$1,534,130.

5. **SHARE-BASED PAYMENTS**

The consolidated entity issued 1,000,000 options as part of the employment contracts for the General Manager - Engineering and General Manager - Production.

The terms and conditions of the grant made during the six months ended 31 December 2007

Grant date	Number of options	Exercise Price	Vesting Date	Expiry Date
08 Oct 2007	250,000	\$ 0.80	08 Oct 2009	07 Oct 2012
08 Oct 2007	250,000	\$ 1.25	08 Oct 2010	07 Oct 2012
15 Oct 2007	250,000	\$ 0.80	15 Oct 2009	14 Oct 2012
15 Oct 2007	250,000	\$ 1.25	15 Oct 2010	14 Oct 2012

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007

5. SHARE-BASED PAYMENTS (Cont.)

Fair value of share options and assumptions for the six months ended 31 December 2007:

	Vesting Date			
	08 Oct 2009	08 Oct 2010	15 Oct 2009	15 Oct 2010
Fair value at grant date	\$ 0.57	\$ 0.49	\$ 0.53	\$ 0.46
Share price	\$ 0.86	\$ 0.86	\$ 0.82	\$ 0.82
Expected volatility (expressed as weighted volatility used in the modelling under Black-Scholes model)	72.40%	72.40%	72.40%	72.40%
Option life (expressed as weighted volatility used in the modelling under Black-Scholes model)	5 years	5 years	5 years	5 years
Expected Dividends	\$ -	\$ -		
Risk-free interest rate (based on government bonds)	6.43%	6.43%	6.43%	6.43%

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2007.

6. OTHER NON CURRENT LIABILITIES

	2007	2006
Deferred Government Assistance	\$ 1,504,211	\$ 480,193

Government assistance relating to expense items are recognised as income over the periods necessary to match assistance to the costs they are compensating. Assistance relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight line basis.

7. RELATED PARTIES

Transactions with key management personnel

A non interest bearing liability of \$313,655 existed between Papyrus Technology Pty Ltd and Mr. Azer at 30 June 2007. The conditions of the liability arrangements were such that the liability was non interest bearing and would only be payable at the time that the consolidated entity generates a profit from ordinary activities after income tax or converted into ordinary shares at Mr Azer's request. This liability was subsequently converted to equity at a deemed ordinary share price of \$0.4944 per share.

PAPYRUS AUSTRALIA LTD AND ITS CONTROLLED ENTITIES
ACN 110 868 409

**DIRECTORS DECLARATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2007**

In the opinion of the directors of Papyrus Australia Limited ("the Company"):

1. the financial statements and notes, as set out on pages 4 to 9, are in accordance with the Corporations Act 2001 including:
 - (a) give a true and fair view of the financial position of the consolidated entity's financial as at 31 December 2007 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.



Ramy Azer
Managing Director

Dated this the 14th Day of February 2008

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF PYPYRUS AUSTRALIA LIMITED & CONTROLLED ENTITY****Report on the half-year financial report**

We have reviewed the accompanying half-year financial report of Papyrus Australia Limited and Controlled Entity, which comprises the interim balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, and other selected explanatory notes and the director's declaration.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of Papyrus Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

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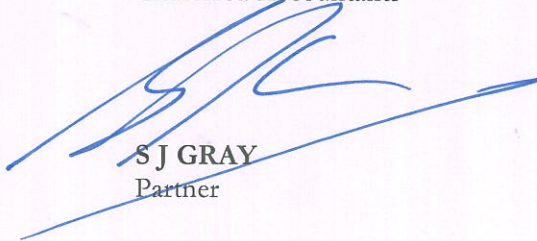
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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Papyrus Australia Limited is not in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date.
- (b) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J GRAY
Partner

Signed at Adelaide on 14 February 2008