arafura
AUSTRALIAN PEARLS

Consolidated Annual Report
30 June 2009

Arafura Pearls Holdings Limited and Controlled Entities
ACN 092 266 067

Directors

M Ceglinski – Non Executive Chairman
A Hewitt – Chief Executive Officer
C Cleveland – Non Executive
J Mews – Non Executive

Company Secretary

G Boden
A Bechta

Registered Office

Suite 25, Level 3, 22 Railway Road
Subiaco WA 6008

Principal Place of Business

Elizabeth Bay Farm
Nhulunbuy NT 0881

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

PO Box 535
Applecross WA 6953

Ph 08 9315 2333
Fax 08 9315 2233
Email registrar@securitytransfer.com.au

Arafura Pearls Holdings Limited shares are listed on the Australian Securities Exchange.

Stock Code – APB

Auditors

Moore Stephens
Chartered Accountants
Level 3, 12 St Georges Terrace
Perth WA 6000

Bankers

Commonwealth Bank of Australia
Agribusiness WA
140 St Georges Terrace
Perth WA 6000

ABN

88 092 266 067

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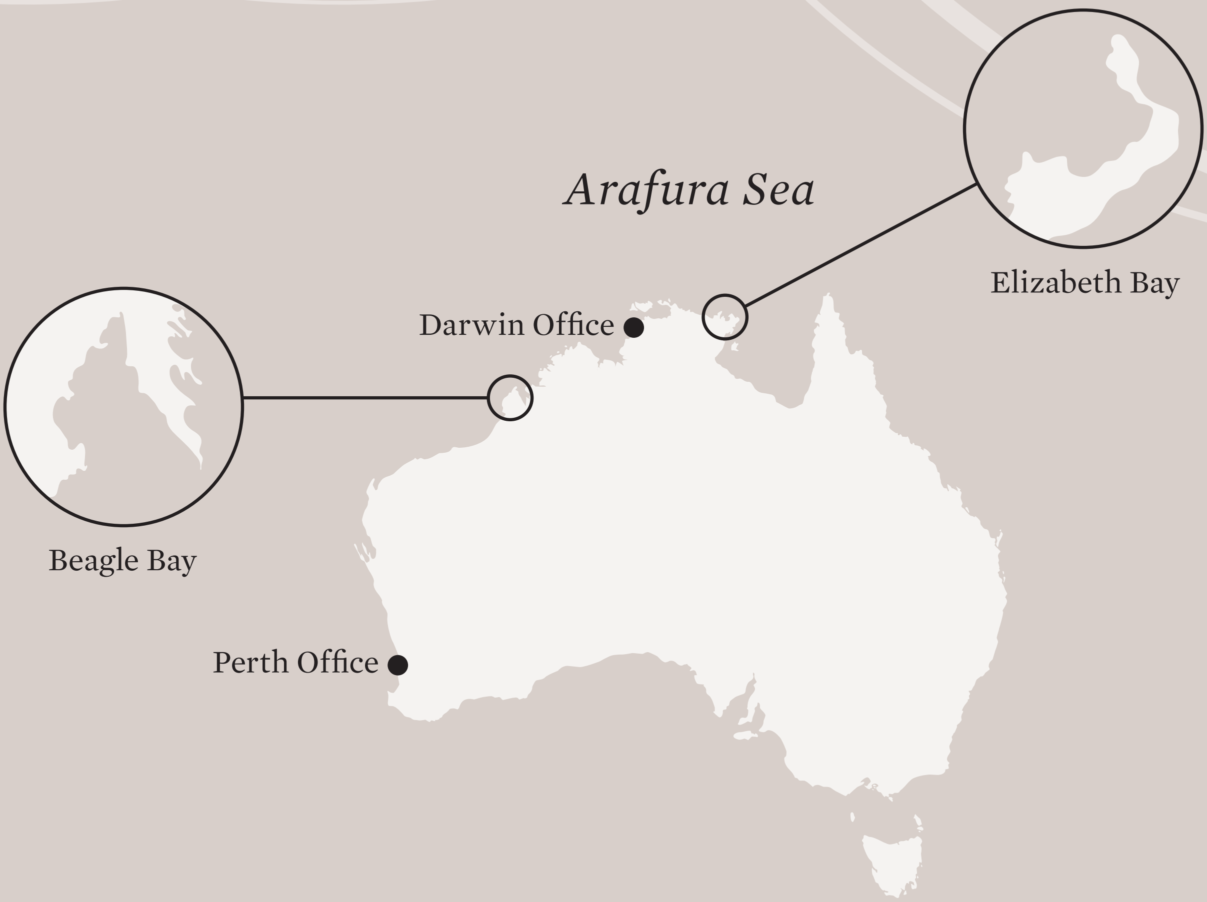
Arafura Sea
Elizabeth Bay
Darwin Office
Beagle Bay
Perth Office

Chief Executive Officer's Report

REVIEW OF OPERATIONS

Fiscal 2009 was a year in which the implementation of the Company's strategic plan reached a threshold in several respects.

The Plan Comes Together

The business plan of Arafura Pearls, drafted in early 2003, had several major objectives:

- Utilise the established infrastructure at Elizabeth Bay to the maximum extent practicable;
- Diversify site risk, both around Elizabeth Bay and into other states;
- Proceed to an ASX listing and use access to capital markets for internal expansion and acquisition;
- Use expanded production as a base for vertical integration in the pearl market.

Expand the production base to lower unit cost per shell

The Company was established on the basis of a Northern Territory production Quota of 40,000 shell, allowing the seeding of 46,000 first operation oysters. Acquisition of Quota from other holders commenced in 2006 and Arafura Pearls now has the right to seed 253,000 first operation shell in the Northern Territory and 18,000 shell in Western Australia.

Arafura Pearls is now the largest holder of production Quota in the Northern Territory and the second largest in Australia. The Company continues to examine opportunities to acquire additional Quota at an economic price.

The production process has developed to be able to take advantage of this Quota. The spawning season which ended in May 2008 saw hatchery production of over one million shell for selection into grow-out. The Company's production assumptions are that the survival rate up to the time of first operation is about 30%, although this is currently being exceeded comfortably, so the 2007/8 hatchery performance will see the full Quota seeded at Elizabeth Bay for the first time in the September 2010 operating season, plus the establishment of a reserve stock.

Infrastructure investment has had to keep pace with the rapid scale-up of production, particularly in the fleet of boats needed to maintain the oysters during the production cycle. In February 2009, the Company took delivery of the "Aracat", a 32 metre catamaran for use as an accommodation and production platform for seeding, harvesting and also selection of spat into grow-out panels. The previously used "mother ship", the "Norwest Pearl" has also continued to be used, increasing the capacity and versatility of the fleet considerably.

Diversify production sites to mitigate operational risk and reduce costs

The company uses its original longline farm area at Elizabeth Bay and has also developed areas at nearby Wigram and Cotton Islands and additional capacity at Truant Island. An increasing proportion of bottom farming is also being used in conjunction with surface farming.

Cyclones and disease are historically the two production risks which management seeks to mitigate by diversifying production areas and sound management practice. Farm areas with different weather aspects and surface/bottom farming mix also allow more flexibility in shell maintenance operations in the context of daily weather conditions.

The Company has also had two years of operation of the Beagle Bay farm in Western Australia, which has added a significant portion of pearl production during a time when Elizabeth Bay harvests are still growing. Present fishing Quota is a multiple of the nominal Quota and will ensure the ongoing viability of this operation, possibly supplemented by hatchery stock from the Northern Territory.

Opportunities for additional and alternative production sites continue to be evaluated by the Company.

Access to capital markets to fund growth

Prior to seeking ASX listing, Arafura Pearls had raised $33.6 million of equity capital. In the listing process, and subsequently, a further total of $10.4 million has been raised, bringing the total at 30 June 2009 to $44 million, with 229.5 million shares on issue.

In the March 2009 quarter, the Company conducted a 1:1 rights issue, which resulted in 93.5 million shares being issued at $0.05 each, to raise $4.7 million. A further 5 million shares were issued at that price in June 2009 and subsequent to the end of the financial year, further placements have raised $0.908 million, again at an issue price of $0.05.

Chief Executive Officer’s Report

REVIEW OF OPERATIONS

The Company has also obtained commercial loans from its bankers to the extent of $6 million, in addition to chattel mortgages, mostly in relation to vessels, of $3.1 million.

Convertible note borrowings totalled $2.5 million at balance date, of which $0.5 million was raised during fiscal 2009. The Company is presently seeking to raise a further $5 million through this form of instrument, offering 12% pa interest and convertible at the minimum of $0.08 per share and a market based price.

Managed Investment Schemes (“MIS”)

In addition to the conventional forms of financing outlined above, the Company implemented an MIS programme as a form of financing without the long term dilutive effect of equity raisings. An MIS scheme has been offered in every year since 2005 and a total of approximately $22 million has been raised, net of fees. The 2009 scheme contributed $5.5 million in sales and a 2010 programme has been implemented. The Australian Taxation Office has confirmed a deduction equivalent to 143% of investment for growers who subscribe to the MIS prior to 31 December 2009

The 2010 MIS should see the peak of this activity by Arafura Pearls. It was instituted as a financing measure and not as a core business activity. The intention is that this activity or similar joint venture arrangements will be wound down over the next couple of years, after which the Company will retain all of its production from subsequent first and second operations.

Vertical integration to capture the “value add”

During its history to date, Arafura Pearls has been growing its production base, but its harvests have been too small for the Company to be anything but a price taker. It had to deliver its product to an agent to be mixed with harvests from other producers so as to offer quantities with a quality uniformity of interest to the market.

The prospect of a 2009 harvest (with some retention of pearls from the 2008 harvest) totalling 95,000 pieces was the catalyst for Arafura Pearls to start building its own sales and distribution capability in the wholesale pearl market place. Immediate benefits have been that the Company is able to “value add” by creating pairs and strands and also has some control over the price which it accepts for its pearls.

Sales of loose pearls during the September quarter of 2009 have exceeded $2 million at around company valuation.

The development of its own marketing capability will enable Arafura Pearls to develop its own brand and to pursue other opportunities up the value chain of the pearl market.

Threshhold Reached

To summarise the position which has been reached over the last 18 months:

- The hatchery at Elizabeth Bay is operating at a sustainable rate of spat production to enable the seeding of the Company’s Quota, with September 2010 being the first season in which 253,000 first operation oysters are expected to be seeded.
- A suitable “mother ship” was commissioned during 2009 to form the nucleus of pearl farming operations.
- Production has steadily increased over recent years, leading to maximum operations in 2010.

September	2007	2008	2009
Pearls seeded	120,000	150,000	190,000
Pearls harvested	20,000	25,000	80,000

- An internal sales and distribution function has been established, so as to more effectively market the Company’s product and to capture some of the value added component of the wholesale market.
- The use of MIS funding will probably peak in the current half year and be phased out over future years.

Chief Executive Officer's Report

REVIEW OF OPERATIONS

Inventory valuation and audit qualification

The auditors have qualified the 2009 accounts on the basis of the inventory valuation of biological assets. The differences relate to two of the assumptions used in the calculation of the estimated value of biological assets and are set out below.

Item	Units	Company	Auditor
Current asset			
Pearls on hand at 30 June 2009			
- price	Yen/momme	Assessed	Assessed
- exchange rate	Yen/$A	76.9	76.9
Pearls to be harvested Sept 09 and sold from Dec 09			
- price	Yen/momme	18,000	15,000
- exchange rate	Yen/$A	87.5	87.5
Non-current asset			
Pearls to be harvested after Sept 2010			
- price	Yen/momme	18,000	15,000
- exchange rate	Yen/$A	70	77

The difference in current asset is only in the assumed price per momme for pearls from Elizabeth Bay to be harvested in September 2009 and the difference in value and profit before tax arising from the different assumptions would be approximately $1.0 million.

The significant difference is therefore in the value of non-current inventory, oysters to be harvested in September 2010 and beyond. The Company maintains its view that the inventory valuation in the June 2009 accounts is a reasonable representation of the value of oysters in the water. The auditors argue that the accounting standard allows only for June 2009 values to be used and have formed a view that Yen15,000 per momme is the current value for the quality of pearls which will be produced from the 2010 harvest and beyond.

Using a balance date exchange rate creates volatility which all users of the accounts will realize is unhelpful to understanding the Company's underlying operational performance and profitability. As an example, the exchange rate ranged between 55 and 105 for the 2009 financial year. If either of those rates happened to be on the balance date, one profit number calculated would be twice the other.

Even if the auditor's position is accepted, the accounting standard allows a market related discount rate to be used, for which the calculated weighted average cost of capital would be acceptable. The Company has used 15% as the discount rate, substantially higher than its cost of capital. If the latter were used in the calculation, even in conjunction with the auditor's view on price and exchange rate, it is the Company's view that the inventory value would net out to be higher than the one presently disclosed in the accounts.

The issue is significant in terms of profit, with the reported figure for both 2008 and 2009 more than explained by the increase in inventory value. That the cash position is different is clear from the amount of external funding which has had to be raised to cover the cost of the inventory increase whilst the company progresses towards sustainable levels of pearl production and sales. The issue is scheduled to become more significant as the Company reaches full production and owns all of the shell which it farms.

Andrew M R Hewitt
Chief Executive Officer

Directors' Report

Your Directors present their report on the Economic Entity consisting of Arafura Pearls Holdings Limited and the entities it controlled at the end or during the year ended 30 June 2009.

Directors and Secretary

The names of the Directors in office at any time during or since the end of the year are:

Mark Joseph Ceglinski
Non-Executive Chairman (Appointed 2 August 2007)

Mr Ceglinski has extensive experience in commercial dealings and the capital markets. He is currently Executive Chairman of Peak Coal Limited. He has previously held roles as Head of Corporate Finance for a national stockbroking firm, Senior Corporate Advisory Partner for Pitcher Partners and a Partner of Arthur Andersen and Ernst & Young. He is a member of the Institute of Chartered Accountants, the Australian Institute of Company Directors and the Australian Institute of Management.

Mr Ceglinski holds directorships in Swings & Roundabouts Limited, Peak Coal Limited & Global Higher Education Limited, Kempo Mining Limited. He was previously a Director of Cougar Mining NL.

Andrew Malcolm Rupert Hewitt
Chief Executive Officer (Appointed 12 June 2000)

Mr Hewitt is a co-founder of the company, and has been an Executive Director of Arafura Pearls since 2000.

Mr Hewitt is a Fellow of the Australian Institute of Chartered Accountants and was a founding partner in the Perth chartered accounting firm, Barrington Partners. Prior to this, he was a Senior Taxation and Financial Services Partner for the international accounting firm, Ernst & Young (then Ernst & Whinney). During his time in professional practice he specialised in the provision of financial and corporate services to clients from a broad range of industry groups. Mr Hewitt has been financially involved in a successful and established Broome (Western Australia) based pearl farm for nearly 20 years.

In the last three years, Mr Hewitt did not hold directorships in other listed companies.

Jeffrey Arthur Sydney Mews
Non-Executive Director (Appointed 19 September 2001)

Mr Mews formal qualifications include membership of the Australian Society of Certified Practicing Accountants and Fellowship of the Institute of Chartered Accountants in Australia, the Taxation Institute of Australia & the Australian Institute of Company Directors.

From 1976 to 1998 Mr Mews was a partner of the international accounting firm PriceWaterhouseCoopers. He specialised in income tax and the provision of advisory services to the resources sector. He has held directorships with a number of companies listed on the Australian Stock Exchange.

Mr Mews holds a directorship in Mermaid Marine Australia Ltd.

Capt. Christopher John Cleveland
Executive Director (Appointed 7 July 2006)

Capt Cleveland is Arafura Pearls senior Pearling Advisor appointed in July 2005, and was appointed a part time Executive Director in 2006.

Capt Cleveland is a pre-eminent pearling industry figure with a career spanning approximately 25 years including as General Manager of operations for Australia's two largest South Sea pearl producers at the time, the Paspaley group and the Kailis group. Prior to this, Capt Cleveland spent 12 years in the Royal Australian Navy (RAN) reaching the rank of Lieutenant Commander. Under his command, HMAS Assail was the only RAN boat to survive Cyclone Tracy unscathed in 1974.

Mr Cleveland has been active within industry bodies including Chairman of the Pearl Licensees Aquaculture Committee, member nominee for the WA Pearl Producers Association (PPA), a member of the Board of the Seafood Council, and a member nominee for the NT Pearl Industry Advisory Committee (NTPIAC).

In the last three years, Mr Cleveland did not hold directorships in other listed companies.

Directors' Report

Graeme Raymond Boden
Secretary (Appointed 8 October 2004)

Mr Boden has extensive corporate experience in the finance and administration function and has over 20 years experience as a director or secretary of ASX listed companies.

Mr Boden is a Fellow of the Australian Institute of Company Directors.

Annabelle Natasha Dominique Bechta
Secretary (Appointed 21 May 2008)

Ms Bechta has over 10 years of corporate & financial services experience gained from working in professional practice at Barrington Partners from 1997 to 2006, prior to joining the company as Chief Financial Officer in 2007.

Ms Bechta is an Associate of the Institute of Chartered Accountants and Fellow of the Taxation Institute of Australia.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Directors' Meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Parent Entity during the financial period to 30 June 2009, are:

Director	Director meetings held while a Director	Director meetings attended	Audit Committee Meetings	Audit Committee Meetings attended	Remuneration Committee Meetings	Remuneration Committee Meetings attended
A Hewitt	5	5			-	-
J Mews	5	5	1	1		
C Cleveland	5	3				
M Ceglinski	5	5	1	1	-	-

Committee Membership

At the date of this report, the Company has an Audit Committee and a Remuneration Committee. The whole board acts as a Nomination Committee when that is required. Members of the Committees of the Board are detailed in the Corporate Governance Statement.

Directors' Interests

As at the date of this report the interests of the directors in shares of the Parent Entity were:

Director	Ordinary Shares	Options $0.25
A Hewitt	33,288,375	4,000,000
J Mews	652,559	1,000,000
C Cleveland	10,000	1,000,000
M Ceglinski	601,275	2,000,000

As at the date of this report the interests of the directors in options of the Parent Entity were:

Director	Options	Issue Date	Expiry Date	Exercise Price
A Hewitt	4,000,000	11 December 07	30 September 10	$0.25
J Mews	1,000,000	11 December 07	30 September 10	$0.25
C Cleveland	1,000,000	11 December 07	30 September 10	$0.25
M Ceglinski	2,000,000	11 December 07	30 September 10	$0.25

Directors' Report

Interests in Contracts or Proposed Contracts with the Parent Entity

There are no interests by directors in contracts or proposed contracts with the Parent Entity, other than as disclosed in Note 25 to the Financial Statements, namely:

- Contracts of employment with Andrew Hewitt as an executive Director and Christopher Cleveland as a part time executive Director;
- Convertible Notes or unsecured loans from directors to the Parent Entity on commercial terms and conditions.

Principal Activities

The principal activity of the Economic Entity during the course of the financial year was the development and operation of a pearl oyster hatchery and farming operation.

Results of Operations

The net profit of the Economic Entity for the year ended 30 June 2009 amounted to $3,126,056 after providing for income tax of $2,329,433 (2008: profit of $10,960,646 after income tax of $3,763,121).

Review of Operations

The Economic Entity continued the development and operation of a pearl oyster hatchery and farming operation at Elizabeth Bay in the Northern Territory, together with the management of pearl oyster farming operations at Beagle Bay in the north west region of Western Australia. Operating and capital expenditures were in line with expectations for the year's level of activity.

The company made significant progress during the year toward being able to seed its full oyster quota. For the first time hatchery production exceeded the spat quantity of approximately 750,000 which is expected to be able to seed quota. Consequently, production shell under management at 30 June 2009 was 184,832 compared with 176,547 at the end of 2008. The company continued with a Managed Investment Scheme in 2009 and is in the process of obtaining an ATO ruling for a 2010 scheme. It remains a company objective to phase out these offerings as pearl production reaches full capacity and the demand for increasing working capital abates.

Pearl Harvest 2008

A successful pearl harvest completed in September 2008 produced over 31,000 white pearls. The proportion of higher quality white round pearls were on target with expectations.

Pearl sales to year end were in line with the market valuation. Pearls are sold in JPY and the strength of the AUD$ against the Yen has given rise to realised and unrealised currency gains & losses.

The harvest at Beagle Bay was undertaken during June 2009 which produced approximately 28,000 saleable pieces. Farm grades showed that the average size for saleable product was approximately 1 momme per pearl (3.75 grams or 13.5mm) with nearly 40% being in the highest value shape category (round shape pearls). Harvesting to date has produced more than 1,000 exceptionally large pieces (16 mm+ in size) including two rare good quality 21 mm round pearls.

Arafura Pearls Project 2009

The company successfully marketed its retail Managed Investment Scheme, Arafura Australian Pearls 2009. Income derived by sales of Grower interests from the 2009 project was approximately $5.5 million in 2009.

Significant Changes in the State of Affairs

During 2009 The Company raised $4,675,590 by the issue of 98,511,790 fully paid shares.

- $4,675,590 was raised by a rights issue from shareholders and underwriters from 93,511,790 shares at $0.05 per share.
- $250,000 was raised by an issue of 5,000,000 shares at $0.05 per share through an institution placement.

During 2009, $446,000 was raised through the issue of convertible notes, which would give rise to the issue of a maximum of 2,477,778 fully paid ordinary shares upon conversion.

Other than these items and as elsewhere disclosed in this annual report, there were no significant changes in the state of affairs of the economic entity.

Directors' Report

Environmental Regulation

The Economic Entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. An environmental management plan will be submitted to the Northern Territory government as part of the process of obtaining Crown leases.

The Economic Entity is committed to managing its pearl oyster hatchery and farming operation in an environmentally responsible manner.

Dividends

No dividends were declared or paid from the end of the previous financial year until the date of this report.

Share Options

As at the date of this report, there were 14,000,000 unissued ordinary shares under options (14,000,000 at reporting date). No options were exercised during the financial year. 13,909,037 options expired during the year.

Events Subsequent to Balance Date

2009 Pearl Harvest

The 2009 pearl harvest commenced at Beagle Bay in June 2009. The seeding operations at the Beagle Bay & Elizabeth Bay pearl farms commenced in July 2009 and have continued during August 2009 and September 2009. The 2009 pearl harvest at Elizabeth Bay was completed during September 2009 and is currently being processed.

2010 MIS

The Company is currently going through the regulatory process regarding its 2010 Managed Investment Scheme, the Arafura Pearl Project 2010. Upon receiving the appropriate approvals, the Company intends to market the retail Managed Investment Scheme, and anticipates sales will be achieved prior to 31 December 2009, as eligible investors will be able to take advantage of the 50% tax break deduction, which effectively allows investors a 143% upfront tax deduction on their investment.

The Company is in the process of issuing a tranche of shares to Sophisticated Investors as part of a working capital fundraising process. Shares are being issued at $0.05, the same price that shares were issued for in the Rights Issue offering undertaken during the 30 June 2009 financial year.

The Company is also in the process of undertaking further fundraising of up to $5 million through the issue of Convertible Notes.

Indemnities

The Economic Entity has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Parent Entity or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.
- The company has paid premiums to insure the directors against liabilities incurred in the conduct of the business of the Company and has provided right of access to Company records, in accordance with common commercial practice. The insurance policy prohibits disclosure of the amount of the premium and the nature of the liability insured against.

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2009

The Board of Directors of Arafura Pearls Holdings Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Arafura Pearls Holdings Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Arafura Pearls Holdings Limited Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations. The Group has adopted the revised version of the Corporate Governance Principles and Recommendations, for the current reporting period

Arafura Pearls Holdings Limited's corporate governance practices have been in place since listing of the Company in December 2006 and are compliant with the Council's recommendations, except where noted.

For further information on corporate governance policies adopted by Arafura Pearls Holdings Limited, refer to our website: *www.arafurapearls.com.au/content.asp?cID=31*

Structure of the Board

The skills, experience and expertise relevant to the position held by each director in office at the date of the annual report is included in the Directors Report. Directors of Arafura Pearls Holdings Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. During the reporting period the membership of the Board was balanced. The board will review its composition periodically and will consider independence as a factor.

The following directors of Arafura Pearls Holdings Limited are considered to be independent as:

- They are not substantial shareholders of the Company
- They have not previously been employed by the Company
- They have not been a material consultant to the Company
- They are not material suppliers or customers of the Company, and;
- They have no other material contracts with the Company, aside from their appointment as a Non-Executive Director of the Company

Name	Position
M Ceglinski	Chairman, Non-Executive Director
J Mews	Non-Executive Director

The term in office held by each director in office at the date of this report is as follows:

Name	Term in office
A Hewitt	9 years
M Ceglinski	2 years
C Cleveland	4 years
J Mews	8 years

The Chief Executive Officer of the Company is Mr A Hewitt who is an executive director of the Company. The Chair is Mr M Ceglinski, who is a Non-Executive Director

The goals of the Corporate Governance processes are to:

- Maintain and increase shareholder value
- Ensure a prudential and ethical basis for the Company's conduct and activities; and
- Ensure compliance with the Company's legal and regulatory objectives

The specific responsibilities of the Board include the following:

- appointment of the Chief Executive Officer and other senior executives and the determination of their terms and conditions including remuneration and termination;
- driving the strategic direction of the Company, ensuring appropriate resources are available to meet objectives and monitoring management's performance;
- developing initiatives for profit and asset growth;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- reviewing the corporate, commercial and financial performance of the Company on a regular basis;

- approving and monitoring the progress of major capital expenditure, capital management and significant acquisitions and divestitures;
- approving and monitoring the budget and the adequacy and integrity of financial and other reporting;
- identifying business risks and implementing actions to manage those risks and corporate systems to assure quality;
- approving the annual, half yearly and quarterly accounts;
- approving significant changes to the organisational structure;
- approving the issue of any shares, options, equity instruments or other securities in the Company;
- ensuring a high standard of corporate governance practice and regulatory compliance and promoting ethical and responsible decision making;
- acting on behalf of, and being accountable to, the Shareholders;
- recommending to shareholders the appointment of the external auditor as and when their appointment or re-appointment is required to be approved by them; and
- meeting with the external auditor, at their request, without management being present.

The Board schedules board meetings at least quarterly, and holds additional meetings as may be required.

The Board has unrestricted access to company records and information, except where the Board determines that such access would be adverse to the Company's interests.

Where appropriate, the Board may consult external professional advice at the expense of the Company.

The Board has established a number of Committees to assist with fulfilling its duties, including:

- Audit and Risk Committee; and
- Remuneration Committee.

The Board operates under a charter that outlines the objectives and specific responsibilities of the Board. The Board charter is posted on the Company website under the Corporate Governance section.

A performance evaluation of Senior Executives has not taken been undertaken during the Reporting Period.

Audit Committee

The Board has established an Audit and Risk Committee, which operates under a Charter approved by the Board, and which is reviewed following any applicable regulatory changes.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its statutory and fiduciary responsibilities including but not limited to, the quality and integrity of the Company's financial reports, procedures & practices, ensuring compliance with all applicable laws & regulations, ensuring the effectiveness and adequacy of the internal control framework and identifying and managing business risks.

The members of the Audit Committee are non-executive directors of the Company. The members of the audit committee during the year were:

J Mews (committee chairman)
M Ceglinski

It was noted that the audit committee comprises only two members which is less than the recommended three members, but it was considered appropriate in the Company's circumstances in light of the viewed independence position of the directors.

Qualifications of Audit Committee members

J Mews has been a director of the Company since 2001. He is a qualified Chartered Accountant and between 1976 & 1998 was a Partner of international accounting firm PriceWaterhouseCoopers, specialising in income tax and the provision of business advisory services. He has also been a director of a number of companies listed on the ASX.

M Ceglinski has been a director of the Company since August 2007. He is a qualified Chartered Accountant and was a Partner for Pitcher Partners, specialising in providing corporate advisory services. He also holds directorships with a number of public companies.

There was one meeting of the Audit Committee held during the financial year.

The Audit Committee Charter is posted on the Company's website in the Corporate Governance section.

Nomination Committee

The Board has decided not to continue with a Nomination Committee and the whole board will act in that capacity when required.

There were no meetings of board acting in its capacity as the Nomination Committee during the financial year.

Remuneration Committee

The Board established a Remuneration Committee with effect from 20 February 2007, which is required to meet at least annually. The purpose of the Committee includes assisting the Company with its objective of attracting and retaining executives and directors who will create value for shareholders, ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance & remuneration, recommending to the Board the remuneration of executive directors, reviewing and approving any equity based plans & other incentive schemes, and fairly & responsibly rewarding executives having regard to the performance of the Group, the executive and prevailing remuneration expectations in the market.

The expected outcomes of the Remuneration Policy are:

- Attracting, retaining and motivation of key executives & high quality management to the Company; and
- Performance initiatives that provide scope for the executives and key management personnel to share in the success of Arafura Pearls Holdings Limited.

Further information regarding the remuneration framework can be found in the Remuneration Report which is contained within the Directors' Report, together with details of the remuneration received by the directors and executives during the current period.

The committee comprises two directors, one of whom is an independent non–executive director. The members of the Remuneration Committee during the financial year were:

M Ceglinski (committee chairman)
A Hewitt

It was noted that the Remuneration Committee only comprises two members, which is less than the recommended three, but it was considered appropriate in the Company's circumstances, due to the size of the Board.

There were no meetings of the Remuneration Committee held during the financial year.

Further details of the Remuneration Committee policies can be found in the Remuneration Report contained in the Directors Report, following the Corporate Governance Statement.

Risk Management

The Company has developed policies and practices which are published on the Company's website and are designed to identify and manage business risks, and achieve the following objectives:

- Compliance with applicable laws and regulations
- Preparation of reliable published financial information
- Implementation of risk transfer strategies where appropriate

The Audit and Risk Committee has been delegated the responsibility for implementing the risk management system. The Company's process of risk management and internal compliance and controls includes:

- identifying and measuring risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks.
- formulating risk management strategies to manage identified risks, and designing and implementing appropriate risk management policies and internal controls.
- monitoring the performance of, and improving the effectiveness of, risk management systems and internal compliance and controls, including regular assessment of the effectiveness of risk management and internal compliance and control.

The Board will review assessments of the effectiveness of risk management and internal compliance and control on an annual basis. The board requires management to report to it on a monthly basis that material risks are being managed effectively. This happens routinely and concentration is upon exceptions to routine operations which may represent a material risk if not managed or mitigated.

The Board has received assurance from the CEO & CFO that the S295A declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial risks.

Code of Conduct

The Company has established a comprehensive Code of Conduct to provide a framework for decisions and actions in relation to ethical conduct of employment. The Code of Conduct underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The framework sets out principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from employees.

The Code of Conduct is posted on the Company's website in the Corporate Governance section.

Share Trading Policy

The Company has developed guidelines for buying and selling securities in the Company. Directors and employees are encouraged to be long–term holders of the Company's securities, however these guidelines have been produced to assist directors and employees when considering the timing of any purchase or sale of securities.

Generally, the time for any director or employee to buy or sell Company securities is limited to the four week period after the Company's periodic disclosures of quarterly and half yearly results and the annual general meeting. However, if at any time a Director or employee is in possession of price sensitive information which is not generally available to the market, then they must not deal in the Company's securities at any time.

Directors and employees should never engage in short-term trading of the Company's securities except for the exercise of options where the shares will be sold shortly thereafter

The Company's guidelines for buying and selling securities are posted on the Company's website in the Corporate Governance section.

Continuous Disclosure

The Company has a written policy in place regarding meeting its continuous disclosure obligations under legislation and the ASX Listing Rules.

In accordance with ASX Listing Rule 3.1, once the Company becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price of value of the Company's securities, the Company must immediately disclose that information to the ASX.

The focus of these procedures is on continuous disclosure compliance and improving access to information for investors.

Price sensitive information is publicly released through ASX before it is disclosed to shareholders and market participants. Distribution of other information to shareholders and market participants is also managed through disclosure to ASX.

Information is posted on the Company's website after the ASX confirms an announcement has been made, with the aim of making the information readily accessible to the widest audience.

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2009

Shareholder Communications

The Board of the Company aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders through:

- the Company's Annual Report delivered by post and which is also placed on the Company's website;
- the half yearly report which is placed on the Company's website;
- the quarterly reports which are placed on the Company's website;
- disclosures and announcements made to ASX, copies of which are placed on the Company's website;
- notices and explanatory memoranda of the Company's annual general meetings (AGM) and extraordinary general meetings (EGM), copies of which are placed on the Company's website;
- the Chairman's address and the Managing Director's address made at the AGMs and the EGMs, copies of which are placed on the Company's website;
- the Company's website, www.arafurapearls.com.au on which the Company posts all announcements which it makes to ASX; and
- the auditor's lead engagement partner being present at the AGM to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.
- Shareholders can register with the Company Secretary to receive email notifications of when an announcement is made by the Company to ASX, including the release of the annual, half yearly and quarterly reports. Links are made available to the Company's website on which all information provided to ASX is immediately posted.

The Company is reviewing its website to identify ways in which it can promote its greater use by shareholders and make it more informative.

Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2009

This report outlines the remuneration arrangements in place for the directors and executives of the Company.

Remuneration Committee

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing the remuneration arrangements in relation to the Board and executives.

Remuneration Objectives

The performance of the Company depends upon the quality of its directors and executives. To maximise the benefits that will be received by shareholders as a result of the performance of the Company's business, the Company must attract, motivate and retain directors and executives that are highly skilled. This is achieved through a remuneration and incentive framework which has been put in place by the Board, and is guided by the following objectives:

- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- putting in place equity based plans and other incentive schemes.

Remuneration Structure

The remuneration structure for Non-Executive Directors is different and completely separate to the remuneration structure of executives.

Non-executive Directors Remuneration Policy

Objective

The Board seeks to set aggregate remuneration at a level that will provide the Company with the ability to attract and retain directors of a high calibre, whilst also maintaining remuneration levels that are acceptable to shareholders.

Structure

The Remuneration Committee is responsible for determining the remuneration arrangements for the non-executive directors, with the annual maximum aggregate amount approved by shareholders. The current maximum amount that can be paid to non-executive directors is $200,000 (excluding statutory superannuation). The non-executive directors are remunerated by way of directors' fees (including statutory superannuation).

- The total maximum remuneration of the non-executive Directors is the subject of a Shareholder resolution in accordance with the Company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable.
- The determination of non-executive Directors' remuneration within that maximum will be made by the Remuneration Committee having regard to the inputs and value to the Company of the respective contributions by each non-executive Director.

Aggregate remuneration of non-executive directors was set at $200,000 per annum by a general meeting of shareholders. The directors have allocated $60,000 per annum for the Chairman and $35,000 per annum for the other non-executive directors plus statutory superannuation contributions.

The Remuneration Committee may award additional remuneration to non-executive Directors called upon to perform extra services or make special exertions on behalf of the Company.

For details of remuneration paid to non-executive directors for the year ended 30 June 2009, please refer the Remuneration Tables.

Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2009

Executives Remuneration Policy

Objective
Remuneration levels for Directors and Key Management Personnel of the parent entity were set competitively to attract and retain appropriately qualified and experienced Directors and senior executives. In future the remuneration committee will canvas information from companies of similar size or stage of development in the agribusiness sector to assess the level of remuneration which would be competitive.

Structure
The remuneration structures for executives are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcomes of the creation of value for shareholders. The remuneration structures take into account the executive capability and experience, level of responsibility and ability to contribute to the Economic Entity's performance.

The Remuneration Committee is responsible for determining and reviewing and approving the remuneration arrangements for the executives. The Remuneration Committee can take advice from external consultants to ensure the appropriateness of the nature and amount of remuneration of such officers in light of prevailing market expectations, to ensure that the remuneration policies fairly and responsibly reward executives having regard to the performance of the Company and the executive.

The Remuneration Committee are responsible for:

- Considering and making recommendations to the Board on the remuneration for each executive Director (including base pay, incentive payments, equity awards, retirement rights, service contracts) having regard to the executive remuneration policy.
- Reviewing and approving the proposed remuneration (including incentive awards, equity awards and service contracts) for the direct reports of the Managing Director and Chief Executive Officer. As part of this review the Committee will oversee an annual performance evaluation of the executive team. This evaluation is based on specific criteria, including the business performance of the Company and its subsidiaries, whether strategic objectives are being achieved and the development of management and personnel.
- The remuneration of an executive Director must be determined by the Remuneration Committee without the affected executive Director participating in that decision making process

Remuneration consists of the following elements:

- Fixed remuneration
- Performance Linked Remuneration
- Incentive Option Scheme

Fixed Remuneration

Objective
Fixed Remuneration is reviewed annually by the Remuneration Committee. The process consists of reviewing the performance evaluation of the executives, which includes the reviewing both the performance of the Company and the Executive. The Remuneration Committee has access to independent external advice if required.

Structure
Fixed remuneration consists of a base salary (calculated on a total cost basis, including any fringe benefits tax related to employee benefits other than parking and business entertainment) as well as employer contributions to superannuation funds. Remuneration levels were reviewed based on an independent report commissioned before year end and new contracts implemented from July 1st 2006 to reflect the recent changes in industrial relations legislation. The company secretary's time and other services are contracted from a Company of which he is principal and there is no performance component in fees paid.

The fixed remuneration component of executives is detailed in the Remuneration Table.

Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2009

Performance Linked Remuneration

Objective
The objective of the performance based bonus component is to align the achievement of the Company's operational targets with the remuneration received by executives by rewarding them for meeting agreed targets and high performance. The total potential performance based bonuses available are set at a level so as to provide sufficient incentive to the executives to meet the agreed targets and such that the cost to the Group is reasonable in the circumstances.

Structure
The agreed targets and key performance indicators that are to be met to receive the performance based bonus are agreed to by the Company and the Executive prior to the commencement of the financial year that the bonus relates to. The key performance indicators relate to a variety of performance measures. These measures were chosen as they represent the key drivers for the short tem success of the business and they also provide a framework for delivering long term value to the Company.

On an annual basis, the Remuneration Committee will review the executives performance against the key performance indicators, and then determine the amount, if any, or the performance based incentive that should be paid to the executives

There has been no Performance linked remuneration paid to any executives during the year ended 30 June 2009.

Incentive Option Scheme

Objective
The objective of the Scheme is to encourage participation by Eligible Participants (being full or part time employees and directors) in the Company through share ownership, and to attract and retain the Eligible Participants.

Structure
The Board has absolute discretion in relation to the offer of options to Eligible Participants. Any offer to any Eligible Participants shall be determined at the absolute discretion of the Directors and shall take into account skills, experience, length of service with the Company, remuneration level and any other such criteria as the Directors consider appropriate in the circumstances. Any options issued under the Scheme will be issued for no consideration. The Board may determine the Option Exercise Price for the offer at its absolute discretion. Subject to the ASX Listing Rules, the Option Exercise Price may be nil but to the extent that the Listing Rules require a minimum price, the Option Exercise Price in respect of an offer made to following First Quotation must not be less than any minimum price specified in the Listing Rules.

There have been no options issued as a result of the Incentive Option Scheme during the financial year ended 30 June 2009.

Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2009

Remuneration Tables – Directors and Key Management Personnel

Directors		
Mr A Hewitt	Executive director	
Mr M Ceglinski	Non-executive director	
Mr J Mews	Non-executive director	
Mr C Cleveland	Executive director	
Key Management Personnel		
Mr C Watts	Acting General Manager	(resigned 20 July 2009)
Mr C Barnard	General Manager	(resigned 8 August 2008)
Mr D Hewitt	Commercial Projects Manager	
Ms A Bechta	Chief Financial Officer/Secretary	
Mr G Boden	Secretary	

2009	Salary & Fees	Cash Bonus	Non-Cash Benefits	Post-Employment Super	Equity Options	Other	Total
Directors							
Mr A Hewitt	278,461	-	-	86,539	44,480	-	409,480
Mr J Mews	-	-	-	15,896	11,120	-	27,016
Capt C Cleveland	20,000	-	-	56,300	11,120	-	87,420
Mr M Ceglinski	35,000	-	-	3,150	22,240	-	60,390
Executives							
Mr G Boden (i)	45,330	-	-	-	-	-	45,330
Mr C Watts	141,722	-	-	12,755	757	-	155,234
Mr C Barnard	19,054	-	-	1,715	-	-	20,769
Mr D Hewitt	148,385	-	-	24,637	5,299	-	178,321
Ms A Bechta	137,615	-	-	12,385	2,271	-	152,271
	825,567	-	-	213,377	97,287	-	1,136,231

(i) paid to a corporate services company of which he is principal.

2008	Salary & Fees	Cash Bonus	Non-Cash Benefits	Post-Employment Super	Equity Options	Other	Total
Directors							
Mr A Hewitt	253,394	73,395	-	118,211	20,989	-	465,989
Mr J Mews	-	-	-	35,000	5,247	-	40,247
Capt C Cleveland	20,000	-	-	56,300	5,247	-	81,547
Mr A Forrest	5,000	-	-	450	-	-	5,450
Mr D Ledger	5,833	-	-	525	-	-	6,358
Mr M Ceglinski	55,000	-	-	4,950	10,495	-	70,445
Executives							
Mr G Boden (i)	49,950	-	-	-	-	-	49,950
Mr C Watts	124,234	-	-	11,181	124	-	135,539
Mr C Barnard	165,138	47,936	-	19,177	867	-	233,118
Mrs E Peterson	51,469	-	-	57,313	-	-	108,782
Mr D Hewitt	132,113	47,936	-	62,201	867	-	233,117
Ms A Bechta	135,014	9,587	-	15,848	372	-	160,821
	997,146	178,854	-	374,305	44,208	-	1,594,513

(i) paid to a corporate services company of which he is principal.

Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2009

Remuneration Options

No options were granted to directors or executives during 2009.

The following options were granted during 2008:

On 12 November 2007, 4,000,000 $0.20 options valued at $295,200 was issued to RM Capital Pty Ltd, in consideration for corporate advisory services to be provided to the company. 2,000,000 options are exercisable at $0.20 each on or before 31 December 2009 vesting until the share price reaches $0.30 or higher on a five day volume weighted average price from commencement of the mandate, and a further 2,000,000 options are exercisable at $0.20 each on or before 31 December 2009 vesting until the share price reaches $0.40 or higher on a five day volume weighted average price from commencement of the mandate.

On 11 December 2007 8,000,000 $0.25 options valued at a total of $425,600, was issued free to the directors of the company for performance of work. Each option is exercisable at $0.25 on or before 30 September 2010. Half of the options for each director vested upon issue, and the remaining half of the options will vest on 31 May 2009. Each of the tranches of options are exercisable between the vesting date and the expiry date.

Pursuant to the Employee Share Option Plan, 1,000,000 $0.20 options valued at a total of $34,200 was offered to & accepted by members of senior management of the company. The options were issued for nil consideration. Half of the options (March 2008 options) vested upon issue on 19 March 2008, and are exercisable at $0.20 provided that the volume average weighted price of the company's shares traded on the ASX has exceeded $0.25 for a five day period. The March 2008 options will expire on 28 February 2010. The remaining half of options (February 2009 options) vest on 6 February 2009, and are exercisable at $0.20 provided that the volume average weighted price of the company's shares traded on the ASX has exceeded $0.25 for a five day period. The February 2009 options expire on 31 July 2010.

Shareholdings of Directors and other key management personnel

Directors and key management personnel holdings of shares and options in the company are contained in Note 25.

Proceedings on Behalf of the Company

No person has applied for leave to a Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of these proceedings. The company was not a party to any such proceedings during the year.

Non Audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2009.

Auditor’s Independence Declaration

The lead auditor’s independence declaration for the year ended 30 June 2009 has been received and can be found on page 21.

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

Andrew M R Hewitt
Director

Dated this 30th day of September 2009.
Perth, Western Australia.

MOORE STEPHENS

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF ARAFURA PEARLS HOLDINGS LIMITED

I declare that, to the best of my knowledge and belief, during the financial year ended 30 June 2009, there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Suan-Lee Tan	Moore Stephens
Partner	Chartered Accountants

Signed at Perth this 30th day of September 2009.

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MOORE STEPHENS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARAFURA PEARLS HOLDINGS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Arafura Pearls Holdings Limited (the company) and Arafura Pearls Holdings Limited and Controlled Entities (the consolidated entity), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the 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 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. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Arafura Pearls Holdings Limited remaining relevant as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

AASB 141 Biological Assets requires biological assets to be measured at each reporting date at fair value less estimated point of sale costs. Fair value is required to reflect the current market in which a willing buyer and willing seller would enter into a transaction. In situations where market based prices are not available for a biological asset in its present condition, such as pearl shell and pearl oysters under cultivation, it is appropriate for an entity to estimate fair values by using a model based on the present value of future net cashflows expected to be derived from the biological asset, discounted at a current market determined pre-tax rate.

As detailed in Note 1(d) of the financial statements, the valuation of the consolidated entity's biological assets (or pearls under cultivation) is based on the discounted net present value (NPV) of net cash flows expected to be derived from these assets. Critical to these NPV computations are a number of underlying assumptions adopted by the Company, as explained in Note 1 of the financial statements under the heading of Critical Accounting Estimates and Judgments on pages 33 to 34.

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As at 30 June 2009, the total value of current and non-current biological assets of $50 million has been derived from NPV computations based on assumptions which includes the following:

(i) Yen/AUD$ rate of 70 (on projected future dated sales) for non-current biological assets
(ii) Average Sales price of ¥18,000 per momme
(iii) Yen/AUD$ rate of 87.50 (on projected 2009 Harvest sales) for current biological assets

Having regard to audit procedures outlined under Australian Auditing Standard ASA 545 *Auditing Fair Value Measurements & Disclosures* and ASA 540 *Auditing Accounting Estimates,* we were unable to determine the appropriateness and reasonableness of the first two assumptions noted above, in the absence of sufficient or adequate objective (internal and external) documentary evidence supplied from management. Accordingly, this has increased the risk that the valuation of biological assets may be materially misstated in the financial report.

With the lack of adequate corroborative evidence to support the first two assumptions noted above, we have considered other information in the form of recent industry publications, general market commentary, informal correspondence with a noted industry expert, recent (but limited) sales evidence by the Company and obtained foreign currency forecast reports from an Australian financial institution.

Based on information which we have collated from the sources quoted above, we consider the following assumptions to be more appropriate and justifiable, on reasonable grounds, in light of current market conditions evident at 30 June 2009:

(i) Yen/AUD$ rate of <u>77</u> (on projected future dated sales)
(ii) Average Sales price of ¥<u>15,000</u> per momme

It is important to appreciate that assumptions used in the NPV computation cannot, by their nature, be determined precisely and that in reality they would fall within a range of acceptable outcomes. Notwithstanding this, specific assumptions must be selected and applied for the purpose of assessing values to be adopted in the financial statements. We consider that the assumptions selected and applied by the Company, after factoring in our two adjustments noted above, are towards the more favourable end of the range of acceptable outcomes, but are nevertheless reasonable in light of factors specific to the operations of the Company.

It is also important to appreciate that the fair value methodology of accounting required to be adopted by AASB141 Biological Assets, requires assumptions used in NPV computations to be reviewed and altered at each reporting date to reflect market conditions at that time. The fair value methodology may result in significant changes to values adopted at each reporting date in line with prevailing economic, industry and market conditions. In other words values can be volatile and fluctuate significantly from year to year. The Company's stated objective in Note 9, in relation to assumptions adopted, that they have tried to set a level which will be able to be held steady over time is not consistent with the fair value methodology of accounting.

By updating the NPV computations with the revised assumptions stated above, the value of total biological assets decreases from its existing valuation of $50 million to approximately $35.14 million, or a decline of $14.86 million.

Accordingly, the impact of the above reduction would result in the following approximate changes to the net financial results and net financial positions currently reported by the Consolidated Entity and Company respectively:

- Consolidated entity's net profit before tax of $5.46 million becomes a net *loss* before tax of $9.4 million;
- Consolidated entity's net profit after tax of $3.13 million becomes a net *loss* after tax of approx. $7.27 million;
- Consolidated entity's net asset position of $54.79 million *reducing* to approx. $44.39 million;
- Company's net profit before tax of $5.53 million becoming a net *loss* before tax of $9.33 million;
- Company's net profit after tax of $3.19 million becoming a net *loss* after tax of approx. $7.21 million; and
- Company's net asset position of $55 million *reducing* to approx. $44.60 million.

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(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(iii) complying with International Financial Reporting Standards as disclosed in Note 1.

Significant Uncertainty Regarding Continuation as a Going Concern

Attention is also drawn to the following matters:

As referred to in Note 29 to the financial statements, the financial statements have been prepared on a going concern basis. As at 30 June 2009, the consolidated entity has cash holdings of $1.41 million and borrowings of $9 million which mature within a year. The consolidated entity has also incurred a net cash outflow from operating activities of $10.26 million for the year then ended. The ability of the consolidated entity to continue as a going concern is dependent on its ability to achieve the outcomes set out in Note 29 of the financial statements. Whilst the directors are confident that the consolidated entity will be able to continue as a going concern, should it not be able to do so, then it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts significantly different than those stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion
In our opinion, the Remuneration Report of Arafura Pearls Holdings Limited for the year ended 30 June 2009 complies with Section 300A of the Corporations Act 2001.

Suan-Lee Tan
Partner

Moore Stephens
Chartered Accountants

Signed at Perth this 30th day of September 2009.

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Income Statement

FOR THE YEAR ENDED 30 JUNE 2009

		Economic Entity		Parent Entity	
	Note	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Sales revenue	2	8,109,713	6,514,971	8,109,713	6,514,971
Other revenue from ordinary activities	2	806,764	398,104	859,879	520,191
Total Revenue		8,916,477	6,913,075	8,969,592	7,035,163
Net increase in net market value of shells/pearls		11,893,114	22,325,412	11,893,114	22,325,412
Purchases		(87,047)	(367,885)	(87,047)	(367,885)
Gross Profit		20,722,543	28,870,602	20,775,658	28,992,690
Other Operating Expenses					
Employee expenses		(6,794,049)	(6,061,428)	(6,794,049)	(6,061,428)
Depreciation and amortisation expenses	3	(1,407,359)	(1,123,456)	(1,387,359)	(1,103,456)
Borrowing expenses	3	(830,925)	(361,437)	(830,925)	(361,437)
Consulting fees		(864,067)	(905,120)	(864,067)	(905,120)
Boats & charter expenses		(552,205)	(807,499)	(552,205)	(807,499)
Fuel expenses		(807,852)	(627,708)	(807,852)	(627,708)
Freight expenses		(186,422)	(216,787)	(186,422)	(216,787)
Insurances		(817,977)	(646,149)	(817,977)	(646,149)
Quota Lease		(859,797)	(1,074,132)	(859,797)	(1,074,132)
Stores expenses		(347,383)	(337,462)	(347,383)	(337,462)
Travel and accommodation expenses		(562,930)	(541,740)	(562,930)	(541,740)
ASSP direct expenses		(367,219)	(383,647)	(367,219)	(383,647)
Other expenses from operating activities		(869,004)	(1,043,135)	(866,418)	(1,037,304)
Total operating expenses		(15,267,191)	(14,129,700)	(15,244,605)	(14,103,869)
Profit (Loss) From Ordinary Activities Before Income Tax		5,455,353	14,740,902	5,531,053	14,888,821
Profit/(Loss) on sale of assets		136	(17,136)	136	(17,136)
Income tax relating to ordinary activities	4	(2,329,433)	(3,763,121)	(2,345,293)	(3,802,815)
Net Profit (Loss) From Ordinary Activities		3,126,056	10,960,646	3,185,896	11,068,870
Earnings per share for profit attributable to the ordinary equity holders of the company:					
Basic earnings per share		$0.02	$0.09	$0.02	$0.09

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 30 JUNE 2009

		Economic Entity		Parent Entity	
	Note	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Current Assets					
Cash assets	5	1,411,069	1,175,049	1,384,482	1,149,278
Receivables	6	5,585,542	1,353,106	5,580,073	1,350,736
Biological Assets	9	6,062,957	3,621,102	6,062,957	3,621,102
Inventories	7	7,386,355	457,064	7,386,355	457,064
Total Current Assets		20,445,922	6,606,321	20,413,867	6,578,180
Non-Current Assets					
Receivables	8	-	-	160,897	101,283
Biological Assets	9	43,936,386	41,342,229	43,936,386	41,342,229
Other financial assets	10	-	-	501,004	501,004
Property, plant and equipment	11	7,448,551	5,112,241	7,448,551	5,112,241
Intangible assets	12	5,646,294	5,976,235	5,286,294	5,596,235
Other	13	625,904	652,509	625,904	652,509
Total Non-Current Assets		57,657,136	53,083,215	57,959,036	53,305,501
Total Assets		78,103,058	59,689,536	78,372,904	59,883,681
Current Liabilities					
Payables	14	4,669,336	3,492,884	4,669,336	3,492,884
Interest bearing liabilities	16	9,045,487	306,822	9,045,487	306,822
Provisions	17	264,297	219,748	264,297	219,748
Other	15	675,180	2,148,300	675,180	2,148,300
Total Current Liabilities		14,654,299	6,167,755	14,654,299	6,167,755
Non-Current Liabilities					
Interest bearing liabilities	18	2,564,581	2,572,694	2,564,581	2,572,694
Other	19	-	675,180	-	675,180
Deferred Tax Liabilities	4	6,092,554	3,763,121	6,148,108	3,802,815
Total Non-Current Liabilities		8,657,135	7,010,995	8,712,689	7,050,689
Total Liabilities		23,311,434	13,178,150	23,366,988	13,218,444
Net Assets		54,791,625	46,510,786	55,005,916	46,665,237
Equity					
Contributed equity	20	44,020,922	39,101,333	44,020,922	39,101,333
Reserves		445,554	210,360	445,554	210,360
Accumulated Profits / (losses)	21	10,325,149	7,199,093	10,539,440	7,353,544
Total Equity		54,791,625	46,510,786	55,005,916	46,665,237

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2009

		$	$	$	$
		Share Capital			
Economic Entity	Note	Ordinary	Reserves	Accumulated Profit/(Losses)	Total
Balance at 1 July 2007		37,335,583	78,480	(3,761,553)	33,652,510
Shares issued during the period		1,765,750	-	-	1,765,750
Equity Settled Transactions		-	131,880	-	131,880
Profit attributable to members of parent entity		-	-	10,960,646	10,960,646
Balance at 30 June 2008		39,101,333	210,360	7,199,093	46,510,786
Balance at 1 July 2008		39,101,333	210,360	7,199,093	46,510,786
Shares issued during the period		4,925,590	-	-	4,925,590
Equity Settled Transactions		(6,000)	235,193	-	229,193
Profit attributable to members of parent entity		-	-	3,126,056	3,126,056
Balance at 30 June 2009		44,020,923	445,553	10,325,149	54,791,625
Parent Entity					
Balance at 1 July 2007		37,335,583	78,480	(3,715,326)	33,698,737
Shares issued during the period		1,765,750	-	-	1,765,750
Equity Settled Transactions		-	131,880	-	131,880
Profit attributable to members of parent entity		-	-	11,068,870	11,068,870
Balance at 30 June 2008		39,101,333	210,360	7,353,544	46,665,237
Balance at 1 July 2008		39,101,333	210,360	7,353,544	46,665,237
Shares issued during the period		4,925,590	-	-	4,925,590
Equity Settled Transactions		(6,000)	235,193	-	229,193
Profit attributable to members of parent entity		-	-	3,185,896	3,185,896
Balance at 30 June 2009		44,020,923	445,553	10,539,440	55,005,917

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2009

		Economic Entity		Parent Entity	
	Note	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Cash flows from operating activities					
Receipts From customers		2,352,885	4,617,092	2,407,565	4,740,651
Receipts – deferred Income		-	1,350,360	-	1,350,360
Payments to suppliers and employees		(11,814,706)	(12,739,033)	(11,809,070)	(12,737,373)
Interest received		30,602	116,087	29,037	114,615
Income Taxes Paid		-	(12,500)	-	-
Borrowing costs		(830,973)	(361,447)	(830,925)	(361,437)
Net cash outflow from operating activities	23	(10,262,192)	(7,029,441)	(10,203,393)	(6,893,184)
Cash flows from investing activities					
Payments for property plant and equipment		(3,151,930)	(1,426,762)	(3,151,930)	(1,426,762)
Payments for Intangibles		-	-	-	-
Net cash outflow from investing activities		(3,151,930)	(1,426,762)	(3,151,930)	(1,426,762)
Cash flows from financing activities					
Proceeds from borrowings		3,219,000	841,385	3,219,000	841,385
Repayment of borrowings		(16,143)	(14,953)	(16,143)	(14,953)
Repayments under hire purchase agreements		(426,101)	(273,246)	(426,101)	(273,246)
Funds advanced to subsidiaries		-	(559)	(59,614)	(106,610)
Proceeds from share issues		4,919,590	1,765,750	4,919,590	1,765,750
Net cash inflows from financing activities		7,696,345	2,318,377	7,636,732	2,212,326
Net increase (decrease) in cash held		(5,717,777)	(6,137,825)	(5,718,592)	(6,107,619)
Cash at the beginning of the financial year	5	1,175,049	7,312,875	1,149,278	7,256,898
Cash at the end of the financial year	5 (a)	(4,542,727)	1,175,049	(4,569,313)	1,149,278

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001

The financial report covers the Economic Entity of Arafura Pearls Holdings Ltd and controlled entities, and Arafura Pearls Holdings Ltd as an individual parent entity. Arafura Pearls Holdings Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report of Arafura Pearls Holdings Ltd and controlled entities, and Arafura Pearls Holdings Ltd as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Economic Entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

Basis of Preparation

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following specific policies have been applied in the preparation of these statements:

a) Going Concern Basis

The financial statements have been prepared on the basis that the Parent Entity and Economic Entity are going concerns, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Further details on the going concern basis of preparation of these account is contained in Note 29.

b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Arafura Pearls Holdings Limited and of its controlled entities. Details of the controlled entities are contained in Note 10.

A controlled entity is any entity controlled by Arafura Pearls Holdings Limited whereby Arafura Pearls Holdings Limited has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities

All inter-Parent Entity balances and transactions between entities in the Economic Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Economic Entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

c) Income Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Sale of Goods

Revenue from the sale of goods is recognised when control of the goods passes to the customer.

Interest Revenue

Interest revenue is recognised as it accrues.

Service Fee

The revenue from the rendering of a service is recognised upon the delivery of services to customers.

Funds received in advance of the delivery of services are classified as deferred income under current or non-current liabilities as appropriate.

Deferred management fees, sales and marketing fees, which are payable out of gross pearl sales, are recognised as revenue at the time the Growers pearls are sold.

1. Statement of Significant Accounting Policies (Continued)

c) Income Recognition (Continued)

Rebates and Subsidies

Revenue from rebates and subsidies are recognised on receipt of funds.

Sale of Non-current Assets

The net profit attributable to non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

d) Inventories

Oysters are considered to be self-generating and re-generating assets and have been valued in accordance with AASB 141 as detailed below:

Oysters are measured at net market value having regard for:

- Net present value of expected future cash flows
- The best indicators of the net amount which could be received from the disposal of the oysters in an active and liquid market
- The cost of replacing the oysters

The shell in the water are required to be recorded in the Balance Sheet at the value reflecting the current age and stage of development of the oyster, in accordance with Australian Accounting Standard 141 Biological Assets. The value of a shell will vary and depend on the age and stage it is at. A juvenile shell that is less than one year old will have a small value allocated to it, compared to a production shell which is nearly ready for harvest which will have a value similar to that of the pearl expected to be harvested from that shell. The AASB141 valuation is a calculation based on a combination of the cost of producing the shell, the market value of the shell, and a discounted NPV of the estimated future harvest income expected.

The expanded production from the hatchery and grow out program, together with increased production (seeded) shell in recent years has meant a significant increase in the valuation of inventory & biological asset stocks. The net increase in value is recognized as a non-cash accounting profit item in the Profit & Loss statement. In due course, this will turn into a cash item as pearls are harvested & sold, and the shell inventory stocks decrease by a corresponding value. Once the Company is at full production, the increase in shell value each year should be netted out by the reduction in value reflecting the pearls being harvested.

Increments and decrements in the values of oysters are recognised in the Income Statement in the reporting period in which increments or decrements occur.

Inventories of pearls are measured at estimated net realisable value.

e) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

f) Employee Entitlements

Provision is made for the Parent Entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made by the Parent Entity to employee superannuation funds and are charges as expenses when incurred.

Equity settled compensation

The fair value of options or shares granted to employees during the financial year is recognised as an expense in the income statement.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

1. Statement of Significant Accounting Policies (Continued)

g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Economic Entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amounts of all fixed assets including building and capitalised lease assets, but excluding freehold land, are depreciated over their useful lives to the Economic Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Class of Fixed Assets	Depreciation Rate
Plant and Equipment	20%
Vessels	20%
Longlines, Panels & Anchors	20%
Hatchery equipment	20%
Grading Room equipment	100%
Shell equipment	37.5%
Buildings	2.5%
Office Electronic Equipment	25%
Structural Improvements	20%
Staff quarters equipment	37.5%
Motor Vehicles	18.75%
Office furniture equipment	22%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

h) Leases

Leases, of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset but not the legal ownership, that are transferred to entities in the Economic Entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are amortised on a straight-line basis over their estimated useful lives where it is likely that the Economic Entity will obtain ownership of the asset or over the term of the lease.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

1. Statement of Significant Accounting Policies (Continued)

i) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible assets and those intangible assets which are not amortised to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives (being those which are not amortised).

j) Licences

Costs associated with obtaining all necessary licences, tenure agreements and permits, as at the acquisition date of 1 July 1999, have been capitalised. These costs are currently being amortised over 25 years.

k) Site Development Costs

Costs incurred during the development phase of the project have been capitalised and are being amortised over a period of 40 years.

l) Borrowing Costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, including trade creditors and lease finance charges.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

m) Taxation

The charge for current income tax expense is based on the profit for the year adjusted for any non- assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Economic Entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by law.

The Economic Entity has not formed an income tax consolidation group under the tax consolidation regime.

n) Cash

For the purposes of the Statement of Cash Flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

1. Statement of Significant Accounting Policies (Continued)

o) Foreign Currency Transactions and balances

The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the transaction of non monetary items are recognised in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

p) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Company assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the income statement.

Critical Accounting Estimates and Judgments

The Board of the Parent Entity evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Company.

Key estimates – Impairment

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

1. Statement of Significant Accounting Policies (Continued)

Critical Accounting Estimates and Judgments (Continued)

Key estimates – Determination of net market value of inventories

Pearl shell, spat and pearl oysters under cultivation are measured at net market value which is determined based on the net present value model of expected future cash flows attributable to these inventories. Assumptions used in the model are regularly reviewed and amended as considered appropriate. Key assumptions used in the model at balance date include;

Sale price (Yen per momme) – Stock on hand	assessed
Sale price (Yen per momme) – Biological assets	18,000
Yen/A$1 (on stock on hand at year end)	76.9
Yen/A$1 (on projected 2009 harvest sales)	87.5
Yen/A$1 (on projected future dated sales)	70
Average yield in momme (first seeding)	0.70
Average yield in momme (second seeding)	1.00
Average yield in momme (third seeding)	1.15
Management costs	actual costs
Effective yield as a percentage of shell harvested	56 – 80%
Discount rate applied to cash flows	15%
Mortality and rejection rates	industry standards

Biological Assets are valued using estimated future yen rates. Biological Assets recognised as Current Assets on the balance sheet represent the estimated value of the pearls to be harvested within the next twelve months. Biological Assets recognised as Non Current Assets in the balance sheet represent pearl shell, spat and pearl oysters under cultivation, which will produce annual pearl harvests from 2010 onwards.

The sale prices assumed for valuation of inventory and biological assets were as follows:

a) *Current Assets*
- Stock of pearls on hand – assessed value. This value is arrived at on the basis of assessment of the quality of each individual pearl in stock. The valuation is made by the Company's Sales & Distribution Manager, or in the case of a relatively small amount of 2007 harvest pearls, the Company's former sales agent. The average of this amount is 13,352 yen/momme.
- Oysters to be harvested within one year – 18,000 yen/momme.

b) *Non Current Assets*
- Oysters to be harvested in the next 2 to 4 years – 18,000 yen/momme.

The price of 18,000 Yen has been used as a longer term rate as the size of the Company's harvest increases and the size and quality of pearls improves.

The Yen/$A exchange rate has been very volatile, especially in recent times. For example, during the 2009 financial year, the rate ranged between a low of 55Yen/$A and 104Yen/$A.

The exchange rates used to calculate inventory value at 30 June 2009 were:

a) *Current Assets*
- Stock of pearls on hand – the 30 June 2009 exchange rate of Yen 76.90/$A
- Oysters to be harvested within one year – 87.5 Yen/$A. This rate is the average of several forecasts from financial institutions for the next four quarters.

b) *Non-Current Assets*
- Oysters to be harvested in the next 2 to 4 years – 70 Yen/$A. This rate has been used by management on the basis of a longer term appreciation of the Yen against the $A and in an effort to avoid the influence of large variances in profit arising from the use of short term exchange rate fluctuations on a long term asset

The values of inventory and biological assets are substantially affected by the assumptions used, particularly pearl price and exchange rate, as set out above, but also the discount rate used to calculate the net present value. With respect to this last, the directors have used a discount rate of 15%, which is higher than the Company's present weighted average cost of capital of 6%, which is an often used and accepted rate, and which would result in a substantially higher value for biological assets.

The impact of potential changes in these assumptions, and further information about the inventory valuation calculation is disclosed in Note 9 – Biological Assets.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

2. Revenue From Ordinary Activities

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Revenues from sales of pearls & pearl shell	857,246	1,897,293	857,246	1,897,293
ASSP Management Fees	7,252,466	4,617,678	7,252,466	4,617,678
	8,109,712	6,514,971	8,109,712	6,514,971
Other Revenues				
- Interest received	30,602	116,087	29,037	114,615
- Rebates and Subsidies	192,284	108,213	192,284	108,213
- Management & Service Fees	18,777	-	73,457	123,559
- Insurance recoveries	233,842	64,405	233,842	64,405
- Miscellaneous Income	298,564	75,783	298,564	75,783
- Foreign exchange gain(loss)	32,695	33,616	32,695	33,616
Total Other Revenues	806,764	398,104	859,879	520,191
Total Revenue From Ordinary Activities	8,916,476	6,913,075	8,969,591	7,035,163

3. Profit / (Loss) From Ordinary Activities

The profit / (loss) from ordinary activities before income tax has been determined after charging the following items:

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Borrowing costs	830,925	361,437	830,925	361,437
Depreciation of property, plant and equipment	835,215	656,425	835,215	656,425
Amortisation of capitalised leased site	7,016	7,016	7,016	7,016
Amortisation of intangible assets	329,940	328,134	309,940	308,134
Amortisation of Options	235,193	131,881	235,193	131,881
Remuneration of Auditor				
- Audit and Review	51,320	55,185	51,320	55,185

In accordance with AASB 141 Agriculture, the Company is required to value its Biological Assets at fair value, which gives rise to a net increase in market value of the assets. The net increase in market value included in the Income Statement is $11,893,114, which comprises $8,522,122 for the value of harvest of new pearls, ($1,291,232) being the deemed cost of pearls sold, and $4,662,223 being the net increase in value of shell stocks in the water, as per Note 9 Biological Assets. The net increase in market value is a non-cash line item. If the Net increase in market value is removed from the Income Statement, it would result in a loss before income tax of ($6,437,625).

4. Income Tax Expense

Income tax expense is $2,329,433 (2008 – $3,763,121) for the year ended 30 June 2009. The Economic Entity has not elected to tax consolidate the group. The deferred tax asset attributable to tax losses arising in the economic entity has been brought to account as at 30 June 2009, and has been offset against the balance of deferred tax liabilities in the balance sheet.

At balance date the Economic Entity has $13,261,516 of prior year Australian sourced income tax losses that are available for recoupment and a current year tax loss of $3,583,991.

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Recognised in the Income Statement				
in Australian dollars				
Current Tax Expense				
Current Year	-	-	-	-
Adjustments for prior years	-	-	-	-
	-	-	-	-
Deferred Tax Expense				
Origination and reversal of temporary timing differences	639,772	(971,799)	640,000	(971,675)
Inventory Valuation	2,763,781	9,349,507	2,763,781	9,349,507
Benefit of year tax losses recognised	(1,074,347)	(4,614,710)	(1,058,487)	(4,575,016)
Benefit of tax losses not recognised	228	124	-	-
FITB not recognised	-	-	-	-
	2,329,433	3,763,121	2,345,293	3,802,816
Total income tax expense in Income Statement	2,329,433	3,763,121	2,345,293	3,802,816

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Numerical reconciliation between income tax expense and pre-tax net profit				
In Australian dollars				
Profit before tax	5,455,489	14,723,766	5,531,189	14,871,685
Income tax expense using domestic tax rate (30%)	1,636,647	4,417,130	1,659,357	4,461,505
Add tax effect of:				
- Permanent differences	107,391	103,847	101,344	97,847
- Effect of tax losses derecognised /(recognised)	228	124	-	-
- Timing differences	585,168	(757,979)	584,545	(756,536)
- Prior years FITB now recognised	-	936,881	-	936,159
Less tax effect of:				
- FITB not recognised	-	-	-	-
	2,329,433	4,700,003	2,345,293	4,738,974
Under/(Over) provision in prior years	-	(936,881)	-	(936,159)
Income tax expense on pre-tax net profit	2,329,43	3,763,121	2,345,293	3,802,816

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities payable on taxable profits under Australian tax law.

4. Income Tax Expense (Continued)

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

Economic Entity	Assets		Liabilities		Net	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
In Australian dollars						
Accrued Income	884	-	-	-	(884)	-
Prepayments	5,804	3,233	-	-	(5,804)	(3,233)
Inventories	-	-	12,113,287	9,349,507	(12,113,287)	(9,349,507)
Accrued Expenses	(9,600)	(8,700)	-	-	9,600	8,700
Superannuation Payable	(46,921)	(53,239)	-	-	46,921	53,239
Provisions	(79,289)	(65,924)	-	-	79,289	65,924
Deferred Management Fees	(202,554)	(847,044)	-	-	202,554	847,044
Tax value of loss carry forwards	(5,689,057)	(4,614,710)	-	-	5,689,057	4,614,710
Tax (assets) / liabilities	(6,020,733)	(5,586,385)	12,113,287	9,349,507	(6,092,555)	(3,763,121)
Set off of tax	6,020,733	5,586,385	(6,020,733)	(5,586,385)	-	-
Net tax (Assets) / liabilities	-	-	6,092,555	3,763,121	(6,092,555)	(3,763,121)

Parent Entity	Assets		Liabilities		Net	
	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
In Australian dollars						
Accrued Income	884	-	-	-	(884)	-
Prepayments	5,804	3,233	-	-	(5,804)	(3,233)
Inventories	-	-	12,113,287	9,349,507	(12,113,287)	(9,349,507)
Accrued Expenses	(9,600)	(8,700)	-	-	9,600	8,700
Superannuation Payable	(46,921)	(53,239)	-	-	46,921	53,239
Provisions	(79,289)	(65,924)	-	-	79,289	65,924
Deferred Management Fees	(202,554)	(847,044)	-	-	202,554	847,044
Tax value of loss carry forwards	(5,633,503)	(4,575,016)	-	-	5,633,503	4,575,016
Tax (assets) / liabilities	(5,965,179)	(5,546,691)	12,113,287	9,349,507	(6,148,108)	(3,802,816)
Set off of tax	5,965,179	5,546,691	(5,965,179)	(5,546,691)	-	-
Net tax (Assets) / liabilities	-	-	6,148,108	3,802,816	(6,148,108)	(3,802,816)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

4. Income Tax Expense (Continued)

Deferred Tax Assets and Liabilities

Movements in temporary differences during the year:

Economic Entity	Balance 1 July 2007 $	Recognised in income $	Recognised in equity $	Balance 30 June 2008 $
Accrued Income	(8,307)	8,307	-	-
Prepayments	(29,169)	25,937	-	(3,233)
Inventories	(4,172,373)	(5,177,134)	-	(9,349,507)
Accrued Expenses	6,900	1,800	-	8,700
Superannuation Payable	27,549	25,690	-	53,239
Provisions	43,062	22,862	-	65,924
Deferred Management Fees	1,090,764	(243,720)	-	847,044
Tax value of loss carry forwards	3,978,455	636,255	-	4,614,710
DTA not recognised	(936,881)	936,881	-	-
	-	(3,763,121)	-	(3,763,121)

Economic Entity	Balance 1 July 2008 $	Recognised in income $	Recognised in equity $	Balance 30 June 2009 $
Accrued Income	-	(884)	-	(884)
Prepayments	(3,233)	(2,572)	-	(5,804)
Inventories	(9,349,507)	(2,763,781)	-	(12,133,287)
Accrued Expenses	8,700	900	-	9,600
Superannuation Payable	53,239	(6,319)	-	46,921
Provisions	65,924	13,365	-	79,289
Deferred Management Fees	847,044	(644,490)	-	202,554
Tax value of loss carry forwards	4,614,710	1,074,347	-	5,689,057
DTA not recognised	-	-	-	-
	(3,763,121)	(2,329,433)	-	(6,092,555)

4. Income Tax Expense (Continued)

Deferred Tax Assets and Liabilities

Movements in temporary differences during the year:

Parent Entity	Balance 1 July 2007 $	Recognised in income $	Recognised in equity $	Balance 30 June 2008 $
Accrued Income	(8,307)	8,307	-	-
Prepayments	(29,169)	25,937	-	(3,233)
Inventories	(4,172,373)	(5,177,134)	-	(9,349,507)
Accrued Expenses	6,900	1,800	-	8,700
Superannuation Payable	27,549	25,690	-	53,239
Provisions	43,062	22,862	-	65,924
Deferred Management Fees	1,090,764	(243,720)	-	847,044
Tax value of loss carry forwards	3,977,732	597,284	-	4,575,016
DTA not recognised	(936,159)	936,159	-	-
	-	(3,802,816)	-	(3,802,816)

Parent Entity	Balance 1 July 2008 $	Recognised in income $	Recognised in equity $	Balance 30 June 2009 $
Accrued Income	-	(884)	-	(884)
Prepayments	(3,233)	(2,572)	-	(5,804)
Inventories	(9,349,507)	(2,763,781)	-	(12,133,287)
Accrued Expenses	8,700	900	-	9,600
Superannuation Payable	53,239	(6,319)	-	46,921
Provisions	65,924	13,365	-	79,289
Deferred Management Fees	847,044	(644,490)	-	202,554
Tax value of loss carry forwards	4,575,016	1,058,487	-	5,633,503
DTA not recognised	-	-	-	-
	(3,802,816)	(2,345,293)	-	(6,148,108)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

5. Cash Assets

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Cash on Hand	241	524	239	524
Term Deposit	111,852	106,819	85,793	82,324
Cash at Bank	1,298,977	1,067,706	1,298,451	1,066,430
	1,411,069	1,175,049	1,384,483	1,149,278

5. a) Reconcilliation of Cash

Cash on hand & at bank	1,411,069	1,175,049	1,384,482	1,149,278
Bank Overdraft	(5,953,797)	-	(5,953,797)	-
	(4,542,728)	1,175,049	(4,569,315)	1,149,278

6. Receivables

Current:				
Trade debtors	4,715,795	330,969	4,715,795	330,969
Other debtors	111,400	251,197	105,931	248,827
Loan accounts	(1,043)	4,476	(1,043)	4,476
Prepayments	759,390	766,463	759,390	766,463
	5,585,542	1,353,106	5,580,073	1,350,736

7. Inventories – Current.

Stock on hand	7,386,355	457,064	7,386,355	457,064

Stock on hand consists of harvested pearls. The ability of the Parent Entity to recover the value attributed to stock on hand is dependent upon the sale of pearls for amounts which reflect these assumptions and lead to the realisation of the recorded book value above. The pearl price used in this valuation was Yen 13,352 per momme, which is derived from the individual assessment of the market value of each piece. The exchange rate used was the actual rate at 30 June 2009, of Yen 76.9/ $A.

8. Receivables

Amount Due – Controlled Entity	-	-	160,897	101,283

9. Biological Assets – Current

Oysters at fair value	6,062,957	3,621,102	6,062,957	3,621,102

Current biological assets comprise the estimated value for pearls to be harvested in the next 12 months. The ability of the Parent Entity to recover the value attributed to current biological assets is dependent upon the sale of pearls for amounts in excess of the book value recorded above.

The estimated value of pearls expected to be harvested during September 2009 has been calculated on the following basis:

An average sale price of 18,000 JPY / momme was applied to the size of the pearl harvest, to provide an estimated harvest value. As the value is calculated in Japanese Yen, it has been converted to AUD$ at a rate of 87.50 JPY to AUD$1, which is an estimated future spot JPY rate, based on the average from several sources of JPY forecasts for the 12 months from harvest to September 2010.

9. Biological Assets – Non-Current

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Oysters at fair value	43,936,386	41,342,229	43,936,386	41,342,229

Stock on hand comprises pearl shell, spat and pearl oysters under cultivation.

The value of oysters to be harvested in 2010 and beyond is calculated as $11,675,529 the net present value of the future cash flows estimated to be derived from the ultimate sale of the pearls. The price which has been used is Yen 18,000 for all future harvests. The Company's management expect the size and quality of pearls to increase as the Company moves toward a steady state of production. The JPY exchange rate which has been used is Yen 70/ $A as an estimate of the long term average.

The ability of the Parent Entity to recover the value attributed to stock on hand is dependent upon the successful development and ultimately sale of pearls for amounts in excess of the book value recorded above.

Sensitivity Analysis

It should be recognised that there is a high degree of uncertainty associated with all of the variables in this calculation, including the physical production forecasts, the ultimate selling price and the exchange rate which will apply at the times of sale. Broadly speaking, directors and management are of the view that the production assumptions which have been used will be maintained, a longer term price of Yen 18,000 per momme will be achieved or exceeded and that a modest longer term appreciation of the Yen against the present Australian dollar exchange rate is reasonable.

The following tables summarise the potential impact of changes in the key non- production related variables.

	Selling Price (Yen per momme)					
	– 10% 15,000 Yen		No Change 18,000 Yen		+ 10% 21,000 Yen	
Discount Rate	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $
18%	-13,621,884	-13,621,884	-4,303,932	-4,303,932	+5,014,021	+5,014,021
15%	-10,213,076	-10,213,076	-	-	+10,213,076	+10,213,076
12%	-6,262,491	-6,262,491	+4,980,180	+4,980,180	+16,222,851	+16,222,851

	Yen Rate					
	+ 10% 77 JPY		No change 70 JPY		– 10% 63 JPY	
Discount Rate	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $
18%	-9,386,451	-9,386,451	-4,303,932	-4,303,932	+1,908,036	+1,908,036
15%	-5,570,768	-5,570,768	-	-	+6,808,718	+6,808,718
12%	-1,152,186	-1,152,186	+4,980,180	+4,980,180	+12,475,294	+12,475,294
6%	+10,020,907	+10,020,907	+17,558,955	+17,558,955	+26,772,126	+26,772,126

In the second table an additional interest rate of 6% has been included as the discount rate. This is the Company's calculation of its weighted average cost of capital (WACC) which is often used as the discount rate for net present value calculations. The use of a higher discount rate can be seen as the inclusion of a risk premium to provide for uncertainty in the estimates.

From these sensitivity tables, considering only a 15% discount rate, and only the limit of the pearl price and Yen rate sensitivities, the reported 2009 profit before income tax of $5,455,353, could vary between a loss of $10,328,491 and a profit of $23,477,147. The directors do not believe that it is in the shareholders' interests to have wildly fluctuating profits from year to year based upon inventory valuation assumptions and have tried to set a level which will be able to be held steady over time.

9. Biological Assets – Non-Current (Continued)

It follows that each year, part of the non-current biological asset moves into current assets on the balance date before it is due to be harvested and another spawning batch is added to move through the system. Hence non-current biological assets are a long term assets, not available for immediate sale.

Reconciliation of movements during the year:

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Carrying amount at the beginning of the year	45,420,395	23,014,389	45,420,395	23,014,389
Movement in nuclei stocks	72,189	-	72,189	-
Harvest of new pearls	8,522,122	2,210,937	8,522,122	2,210,937
Deemed cost of pearls	(1,291,232)	(1,837,148)	(1,291,232)	(1,837,148)
Gain / (Loss)	4,662,223	22,032,217	4,662,223	22,032,217
Total Inventories & Biological Assets	57,385,698	45,420,395	57,385,698	45,420,395

10. Other Financial Assets

Shares – Controlled Entities	-	-	501,004	501,004

		Percentage Owned (%)	
Controlled Entities	Country of Incorporation	2009	2008
Parent Entity:	-	-	-
Arafura Pearls Holdings Ltd	Australia	-	-
Subsidiaries of the Parent Entity:			
Arafura Securities Ltd	Australia	100	100
Pearl Management Australia Pty Ltd	Australia	100	100
Arafura Pearls Pty Ltd	Australia	100	100
Arafura Pearls Licensing Pty Ltd	Australia	100	100

Shares in controlled entities are Available for Sale financial assets, the fair value of which cannot be reliably measured as availability in the range of fair value estimates is significant. As a result shares in controlled entities are reflected at cost.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

11. Property, Plant & Equipment

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Plant and equipment at cost	9,633,228	6,462,136	9,633,228	6,462,136
Less: Accumulated depreciation	(3,536,836)	(2,741,323)	(3,536,836)	(2,741,323)
	6,096,392	3,720,813	6,096,392	3,720,813
Buildings	1,695,675	1,695,248	1,695,675	1,695,248
Less: Accumulated depreciation	(343,514)	(303,820)	(343,514)	(303,820)
	1,352,161	1,391,428	1,352,161	1,391,428
Total Property, Plant and Equipment	7,448,553	5,112,241	7,448,553	5,112,241
Plant and Equipment				
Opening balance	3,720,813	3,035,301	3,720,813	3,035,301
Disposals	(59,753)	(85,645)	(59,753)	(85,645)
Depreciation	(795,520)	(616,694)	(795,520)	(616,694)
Additions	3,230,852	1,387,851	3,230,852	1,387,851
Closing balance	6,096,392	3,720,813	6,096,392	3,720,813
Buildings				
Opening balance	1,391,428	1,313,619	1,391,428	1,313,619
Additions	427	117,540	427	117,540
Depreciation	(39,694)	(39,731)	(39,694)	(39,731)
Closing balance	1,352,161	1,391,428	1,352,161	1,391,428

12. Intangible Assets

Formation expenses	3,215	3,215	3,215	3,215
Licences	6,821,429	6,821,429	6,321,429	6,321,429
Less: Accumulated Amortisation	(1,178,350)	(848,409)	(1,038,350)	(728,409)
Total Intangible Assets	5,646,294	5,976,235	5,286,294	5,596,235

13. Other Non-Current Assets

Site development costs	280,666	280,666	280,666	280,666
Less: Accumulated depreciation	(64,898)	(57,882)	(64,898)	(57,882)
	215,768	222,784	215,768	222,784
Boats under construction	393,335	412,924	393,335	412,924
Airstrip	16,801	16,801	16,801	16,801
	625,904	652,509	625,904	652,509

14. Payables

Current	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Trade Creditors	2,900,198	2,058,962	2,900,198	2,058,962
Other Creditors	917,324	623,380	917,324	623,380
Accrued Expenses	851,813	810,542	851,813	810,542
	4,669,336	3,492,884	4,669,336	3,492,884

15. Other Current Liabilities

Deferred Management Fee	675,180	2,148,300	675,180	2,148,300

16. Interest Bearing Liabilities

Convertible Notes – secured	2,446,000	-	2,446,000	-
Hire Purchase – secured	645,690	306,822	645,690	306,822
Bank Overdraft – secured	5,953,797	-	5,953,797	-
	9,045,487	306,822	9,045,487	306,822

Convertible Notes secured by registered charges over assets of the Company.
Hire purchase liabilities secured by registered charges over the mortgaged equipment.
Bank Overdraft is secured by a registered first debenture charge over the assets of the Company.

The covenants for the Bank Overdraft facility are as follows:

- The Company is to maintain a Net Worth (being Net Tangible Assets) of not less than $42,000,000
- The Company's net worth will be maintained at not less than 70% of Total Tangible Assets
- The Company is required to meet quarterly EBITDA covenants

Management confirms that the Net Worth covenants were met for the full year. The quarterly EBITDA covenants were met for all quarters except March 2009, and the cumulative YTD EBITDA covenants were met for the September & December 2008 quarters, however was not met for the March & June 2009 quarters. This was a result of MIS sales being lower than expected, with pre GFC budgeted MIS sales being impacted on by the GFC.

17. Provisions

Employee Entitlements	264,297	219,748	264,297	219,748
Income Tax	-	-	-	-
	264,297	219,748	264,297	219,748
Number of employees at year end	108	123	108	123

18. Interest Bearing Non-Current Liabilities

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Convertible Notes	-	2,000,000	-	2,000,000
Hire Purchase – Secured	2,507,470	499,440	2,507,470	499,440
Other Loans – Secured	57,111	73,254	57,111	73,254
	2,564,581	2,572,694	2,564,581	2,572,694

Convertible Notes

Convertible Notes totalling $500,000 were issued between April & June 2008 at a note issue price of $1.00. The maturity date of the convertible notes is 30 June 2010. The notes are convertible to ordinary shares in the range of $0.18 to $0.45 and the value of the weighted average price in the 20 days trading prior to conversion. The notes are secured by registered charges over the assets of the Company

Other Loans – Secured

Other secured loans include hire purchase liabilities secured by registered charges over the mortgaged equipment, and a concessional-interest loan from the Northern Territory Government, which was provided to assist in replacing assets that were damaged during Cyclone Ingrid. The loan is secured by fixed and floating charges over the property and assets of the Parent Entity.

19. Other Non-Current Liabilities

Deferred Management Fee	-	675,180	-	675,180

20. Contributed Equity

	Parent Entity		Parent Entity	
	2009 Shares	2008 Shares	2009 $	2008 $
(a) Issued Capital				
Ordinary Shares – fully paid	229,487,842	130,976,052	44,020,922	39,101,333

(b) Movements in Ordinary Share Capital of the Parent Entity during the past two years were as follows:

Date	Details	Notes	Number of Shares	Issue Price	$
30/06/2007	Balance		120,009,381		37,335,583
	IPO		10,500,000	17c	1,785,000
	Share issue expenses				(89,250)
	Employee bonus share		466,667	15c	70,000
30/06/2008	Balance		130,976,052		39,101,333
	Rights Issue	(i)	45,394,737	5c	2,269,737
	Rights Issue	(i)	36,687,053	5c	1,834,353
	Rights Issue	(i)	11,430,000	5c	571,500
	Share issue expenses	(ii)			(6,000)
	IPO	(iii)	5,000,000	5c	250,000
30/06/2009	Balance		229,487,842		44,020,923

(i) 93,511,790 shares were issued between 3 February 2009 & 23 April 2009 as a result of a $0.05 1 for 1 Rights Issue offering to shareholders, raising approximately $4.68m, of which $4m was underwritten.
(ii) Costs associated with underwriting of Rights Issue raising.
(iii) Issue of 5,000,000 shares at $0.05 each on 22 June 2009 through an institution placement.

Notes to the Financial Statements

21. Accumulated Profits / (Losses)

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Accumulated profits / (losses) at the beginning of the financial year	7,199,093	(3,761,553)	7,353,544	(3,715,326)
Net profit / (loss) attributable to members of the Parent Entity	3,126,056	10,960,646	3,185,896	11,068,870
Accumulated Profits / (Losses) at 30 June 2009	10,325,149	7,199,093	10,539,440	7,353,544

22. Capital and Lease Commitments

Hire Purchase and other loans payable

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
- less than 1 year	851,627	365,941	851,627	365,941
- 1 to 2 years	657,659	331,484	657,659	331,484
- 2 to 3 years	604,422	138,762	604,422	138,762
- 3 to 4 years	520,143	84,279	520,143	84,279
- 4 to 5 years	1,195,087	-	1,195,087	-
Minimum payments	3,828,938	920,466	3,828,938	920,466
Less: Future Finance Charges	(675,778)	(114,204)	(675,778)	(114,204)
Total Hire Purchase	3,153,160	806,262	3,153,160	806,262

Capital expenditure commitments

In respect of the fit-out of two pearl cleaning barges currently under construction	330,000	780,000	330,000	780,000

Land and Sea Lease

The area in which Arafura Pearls Holdings Limited operates is subject to a 20 year lease with the Northern Land Council. There is an option for a 10 year extension. The traditional owners have rights to acquire a 5% share in 2008 at a value to be assessed independently at that time. There is a commitment to make the following annual payments to the Northern Land Council. The parent entity is due to make payment by the 30 September each year as follows (see below):

30 September 2009	$80,000
30 September 2010, 2011 & 2012	$100,000
30 September 2013, 2014, 2015, 2016 & 2017	$180,000

From the 5th anniversary (30 September 2003) onwards all sums are to be multiplied by the index rate, which is the most recently published quarterly index number divided by the quarterly index number which was published at the date of the arrangement. The June 1998 index rate was 121.0.

Crown Leases have recently been granted over the sea areas which Arafura Pearls Holdings Limited operates in the Northern Territory. Annual rent of $38,500 is payable, and the rental figure will be re-appraised every two years. The Crown Leases expire in September 2018. With regards to the joint venture operations with Arrow Pearls, the annual rent payable for the Crown Lease is $7,535, and the crown lease expires in December 2025.

22. Capital and Lease Commitments (Continued)

Beagle Bay Plant & Equipment Lease

In accordance with the joint venture agreement between the parties involved, the Company is required to pay to Arrow Pearls Co Pty Ltd an annual rental of $175,000 plus GST for the usage of the Beagle Bay camp infrastructure, pearling vessels, vehicles and equipment, and in water pearling equipment such as rope, floats, anchors, radar markers, etc.

The initial term of the joint venture is until 31 December 2009, and the Company has the option to extend the term for a further two years to 31 December 2011, and if that option is exercised, for a further five years to 31 December 2016, and if that option is exercised for a further five years to 31 December 2021.

23. Reconciliation Of Net Cash From Operating Activities To Operating Profit / (Loss)

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Operating Profit (Loss) After Income Tax	3,126,056	10,960,646	3,185,896	11,068,870
Adjustments				
Movement in Provision for Income Tax	2,329,433	3,763,844	2,345,293	3,820,815
Deferred Management Fee – ASSP	(2,148,300)	(812,400)	(2,148,300)	(812,400)
Non Cash Changes Debtors & Creditors	(3,011,436)	354,243	(3,008,337)	350,082
(Increase) Decrease in inventories	(11,965,303)	(22,406,006)	(11,965,303)	(22,406,006)
Depreciation	835,209	656,425	835,209	656,425
Amortisation	572,150	467,031	552,150	447,031
Net Cash Provided by Operating Activities	(10,262,192)	(7,029,441)	(10,203,393)	(6,893,184)

24. Events Subsequent to Reporting Date

2009 Pearl Harvest

The 2009 pearl harvest commenced at Beagle Bay in June 2009. The seeding operations at the Beagle Bay & Elizabeth Bay pearl farms commenced in July 2009 and have continued during August 2009 and September 2009. The 2009 pearl harvest at Elizabeth Bay was completed during September 2009 and is currently being processed.

2010 MIS

The Company is currently going through the regulatory process regarding its 2010 Managed Investment Scheme, the Arafura Pearl Project 2010. Upon receiving the appropriate approvals, the Company intends to market the retail Managed Investment Scheme, and anticipates sales will be achieved prior to 31 December 2009, as eligible investors will be able to take advantage of the 50% tax break deduction, which effectively allows investors a 143% upfront tax deduction on their investment.

The Company is in the process of issuing a tranche of shares to Sophisticated Investors as part of a working capital fundraising process. Shares are being issued at $0.05, the same price that shares were issued for in the Rights Issue offering undertaken during the 30 June 2009 financial year.

The Company is also in the process of undertaking further fundraising through the issue of Convertible Notes.

25. Directors and Other Key Management Personnel

Related Party Transactions

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
(a) Director Related Entities				
Interest paid on shareholder loans provided by entities associated with AMR Hewitt (i).	60,348	2,280	60,348	2,280
Balance of the Convertible Note provided by entities associated with AMR Hewitt (i).	646,000	100,000	646,000	100,000

(i) The terms and conditions attached to the convertible notes issued to the entities associated with executive and non-executive directors are identical to the terms and conditions attached to all other convertible notes.

(b) Directors
Directors along with shareholders are able to purchase goods produced by the Parent Entity on commercial terms and conditions.

Directors and Other Key Management Personnel Compensation

(a) Parent Entity Directors and other key management personnel in office at any time during the financial year are:

Parent Entity Directors		
Mr. A Hewitt	Executive director	
Mr M Ceglinski	Non-Executive director	
Mr. J Mews	Non – executive director	
Mr C Cleveland	Executive director	
Other Key Management Personnel		
Mr C Watts	Acting General Manager	(resigned 20 July 2009)
Mr C Barnard	General Manager	(resigned 8 August 2008)
Mr D Hewitt	Commercial Projects Manager	
Ms A Bechta	Chief Financial Officer/Secretary	
Mr G Boden	Secretary	

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

25. Directors and Other Key Management Personnel (Continued)

(b) Parent Entity Directors and Key management personnel compensation

2009	Salary & Fees	Cash Bonus	Non-Cash Benefits	Post-Employment Super	Equity Options	Other	Total
Directors							
Mr A Hewitt	278,461	-	-	86,539	44,480	-	409,480
Mr J Mews	-	-	-	15,896	11,120	-	27,016
Capt C Cleveland	20,000	-	-	56,300	11,120	-	87,420
Mr M Ceglinski	35,000	-	-	3,150	22,240	-	60,390
Executives							
Mr G Boden (i)	45,330	-	-	-	-	-	45,330
Mr C Watts	141,722	-	-	12,755	757	-	155,234
Mr C Barnard	19,054	-	-	1,715	-	-	20,769
Mr D Hewitt	148,385	-	-	24,637	5,299	-	178,321
Ms A Bechta	137,615	-	-	12,385	2,271	-	152,271
	825,567	-	-	213,377	97,287	-	1,136,231

(i) Paid to a corporate services company of which he is a principal.

2008	Salary & Fees	Cash Bonus	Non-Cash Benefits	Post-Employment Super	Equity Options	Other	Total
Directors							
Mr A Hewitt	253,394	73,395	-	118,211	20,989	-	465,989
Mr J Mews	-	-	-	35,000	5,247	-	40,247
Capt C Cleveland	20,000	-	-	56,300	5,247	-	81,547
Mr A Forrest	5,000	-	-	450	-	-	5,450
Mr D Ledger	5,833	-	-	525	-	-	6,358
Mr M Ceglinski	55,000	-	-	4,950	10,495	-	70,445
Executives							
Mr G Boden (i)	49,950	-	-	-	-	-	49,950
Mr C Watts	124,234	-	-	11,181	124	-	135,539
Mr C Barnard	165,138	47,936	-	19,177	867	-	233,118
Mrs E Peterson	51,469	-	-	57,313	-	-	108,782
Mr D Hewitt	132,113	47,936	-	62,201	867	-	233,117
Ms A Bechta	135,014	9,587	-	15,848	372	-	160,821
	997,146	178,854	-	374,305	44,208	-	1,594,513

(i) Paid to a corporate services company of which he is a principal.

25. Directors and Other Key Management Personnel (Continued)

(c) Remuneration Options

No options were granted to directors or executives during 2009.

The following options were granted to directors and executives during 2008:

On 11 December 2007 8,000,000 $0.25 options valued as follows, was issued free to the directors of the company for performance of work.

	Number of Options	Fair Value of Options at grant date
A Hewitt	4,000,000	$212,800
J Mews	1,000,000	$53,200
C Cleveland	1,000,000	$53,200
M Ceglinski	2,000,000	$106,400

Each option is exercisable at $0.25 on or before 30 September 2010. Half of the options for each director vested upon issue, and the remaining half of the options will vest on 31 May 2009. Each of the tranches of options are exercisable between the vesting date and the expiry date.

Pursuant to the Employee Share Option Plan, executives were issued with $0.20 options, for nil consideration, valued as follows:

	Number of Options	Fair Value of Options at grant date
D Hewitt	700,000	$11,970
A Bechta	300,000	$5,130
C Watts	100,000	$1,710

Half of the options (March 2008 options) vested upon issue on 19 March 2008, and are exercisable at $0.20 provided that the volume average weighted price of the company's shares traded on the ASX has exceeded $0.25 for a five day period. The March 2008 options will expire on 28 February 2010. The remaining half of options (February 2009 options) will vest on 6 February 2009, and are exercisable at $0.20 provided that the volume average weighted price of the company's shares traded on the ASX has exceeded $0.25 for a five day period. The February 2009 options expire on 31 July 2010.

(c) Shareholdings of Directors and other key management personnel

Ordinary Shares	Balance 1 July 08	Received as Remuneration	Net Change/ Other	Balance 30 June 09
Mr A Hewitt	13,642,322	-	19,646,053	33,288,375
Mr J Mews	326,279	-	326,280	652,559
Mr M Ceglinski	300,635	-	300,640	601,275
Capt C Cleveland	10,000	-	-	10,000
Mr G Boden	311,667	-	311,667	623,334
Mr C Barnard	176,667	-	-	176,667
Mr D Hewitt	466,667	-	-	466,667
Ms A Bechta	33,333	-	-	33,333
	15,267,570	-	20,584,640	35,852,210

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

25. Directors and Other Key Management Personnel (Continued)

(c) Shareholdings of Directors and other key management personnel (continued)

Ordinary Shares	Balance 1 July 07	Received as Remuneration	Net Change/ Other	Balance 30 June 08
Mr A Hewitt	13,839,817	-	(197,495)	13,642,322
Mr J Mews	326,279	-	-	326,279
Mr M Ceglinski	100,000	-	200,635	300,635
Capt C Cleveland	10,000	-	-	10,000
Mr A Forrest	200,000	-	-	200,000
Mr D Ledger	100,000	-	-	100,000
Mr G Boden	311,667	-	-	311,667
Mr C Barnard	10,000	166,667	-	176,667
Mrs E Peterson	100,000	-	(100,000)	-
Mr D Hewitt	-	166,667	300,000	466,667
Ms A Bechta	-	33,333	-	33,333
	14,997,763	366,667	203,140	15,567,570

* The 1 July 2007 balance for Mr AMR Hewitt included 300,000 shares held by Mr D Hewitt. At June 30 2008, the shareholding for Mr D Hewitt has been separately disclosed.

(d) Option holdings of Directors and other key management personnel

Options	Balance 1 July 08	Received as Remuneration	Net Change/ Other	Balance 30 June 09
Mr A Hewitt	6,108,858	-	(2,108,858)	4,000,000
Mr J Mews	1,048,019	-	(48,019)	1,000,000
Mr M Ceglinski	2,000,000	-	-	2,000,000
Capt C Cleveland	1,000,000	-	-	1,000,000
Mr G Boden	67,223	-	(67,223)	-
Mr C Watts	100,000	-	-	100,000
Mr C Barnard	700,000	-	-	700,000
Mr D Hewitt	700,000	-	-	700,000
Ms A Bechta	300,000	-	-	300,000
	12,024,100	-	(2,224,100)	9,800,000

Options	Balance 1 July 07	Received as Remuneration	Net Change/ Other	Balance 30 June 08
Mr A Hewitt	2,108,858	4,000,000	-	6,108,858
Mr J Mews	48,019	1,000,000	-	1,048,019
Mr M Ceglinski	-	2,000,000	-	2,000,000
Capt C Cleveland	-	1,000,000	-	1,000,000
Mr D Ledger	100,000	-	-	100,000
Mr A Forrest	25,000,000	-	(25,000,000)	-
Mr G Boden	67,223	-	-	67,223
Mr C Watts	-	100,000	-	100,000
Mr C Barnard	-	700,000	-	700,000
Mr D Hewitt	-	700,000	-	700,000
Ms A Bechta	-	300,000	-	300,000
	27,324,100	9,800,000	(25,000,000)	12,124,100

25. Directors and Other Key Management Personnel (Continued)

Remuneration Practices

Remuneration levels for Directors and Key Management Personnel of the parent entity were set competitively to attract and retain appropriately qualified and experienced Directors and senior executives. In future a remuneration committee will canvas information from companies of similar size or stage of development in the agribusiness sector to assess the level of remuneration which would be competitive.

The remuneration structures for executives are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcomes of the creation of value for shareholders. The remuneration structures take into account the executive capability and experience, level of responsibility and ability to contribute to the Economic Entity's performance.

Fixed Remuneration

Fixed remuneration consists of a base salary (calculated on a total cost basis, including any fringe benefits tax related to employee benefits other than parking and business entertainment) as well as employer contributions to superannuation funds. Remuneration levels were reviewed based on an independent report commissioned before year end and new contracts implemented from July 1st 2006 to reflect the recent changes in industrial relations legislation. The company secretary's time and other services are contracted from a Company of which he is principal and there is no performance component in fees paid.

Performance Linked Remuneration

Performance linked remuneration was not paid to Directors and executives during the 2009 year. Performance linked remuneration was paid to directors or executives in 2008 as outlined in the remuneration table.

Short Term and Long Term Incentives

There were no short term nor long term incentives paid during the 2009 year.

Service Agreements

The Chief Executive Officer is a full time employee with an employment contract which he may terminate by giving written notice of six months. The company may terminate the employee with no notice period for misconduct with other notice periods ranging from 3 – 6 months with cause to 24 months with no cause. There is no termination fee payable other than during the term of notice.

The Company secretary is engaged through a Company of which he is the principal and the fees are paid are time based and include time spent by other employees of the service Company on behalf of the parent entity. There is no contract for services.

The Chief Financial Officer is a permanent full time employee with an employment contract which either party may terminate by giving three month's written notice, except the parent entity must give 9 months notice to terminate without cause. There is no termination fee payable other than during the term of notice. In the instance of gross misconduct, the parent entity can terminate employment at any time.

The Commercial Projects Manager is a full time employee with an employment contract which either party may terminate by giving three month's written notice, except the parent entity must give 9 months notice to terminate without cause. There is no termination fee payable other than during the term of notice. In the instance of gross misconduct, the parent entity can terminate employment at any time.

The General Manager is a full time employee with an employment contract which either party may terminate without cause by giving 3 months notice. The Company may terminate without notice at its discretion for misconduct or with 3 months notice for non performance due to incapacity.

The Pearling Advisor is an executive Director appointed in July 2006 on a part time basis under an employment contract which either party may terminate by giving three months written notice, except the parent entity must give 9 months notice to terminate without cause.

Non-Executive Directors

Aggregate remuneration of non-executive directors was set at $200,000 per annum by a general meeting of shareholders. The directors have allocated $60,000 per annum for the Chairman and $35,000 per annum for the other non-executive directors plus statutory superannuation contributions.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

26. Financial Instruments & Financial Risk Management

Financial Risk Management Policies

The group's financial instruments consists mainly of deposits with banks, short term investments, accounts receivable and payable, loans to and from subsidiaries, hire purchase/leases, and convertible notes. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group's activities expose it to a variety of financial risks, market risk (currency, price & interest rate risk), credit risk and liquidity risk. The Group uses different methods of sensitivity analysis to measure different types of risk to which it is exposed, such as sensitivity analysis for foreign exchange and interest rate risk and aging analysis for credit risk.

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Financial Assets				
Cash and Cash equivalents	1,411,069	4,467,291	1,384,483	4,439,520
Trade and other receivables	4,826,195	582,166	4,821,726	579,796
	6,237,264	5,049,457	6,206,209	5,019,316
Financial Liabilities				
Bank Overdraft	5,953,797	3,290,242	5,953,797	3,290,242
Trade and other payables	2,790,881	2,098,533	2,790,881	2,098,532
Borrowings	5,656,271	2,879,516	5,656,271	2,879,516
	14,400,949	8,268,291	14,400,949	8,268,290

(a) Foreign Exchange

The Parent Entity has exposure to currency exchange risk for financial assets and liabilities, in respect of the Japanese Yen Account, and Japanese Yen trade receivables and payables.

Pearl sales are sold in Japanese Yen. There is an exposure to currency exchange risk during the period from when the sale is made to when the funds are received and converted to local currency.

The groups exposure to foreign exchange risk at the reporting date was as follows:

	30 June 2009 JPY $	30 June 2008 JPY $
Cash and cash equivalents	71,277	123,999
Trade and other receivables	130,045	264,710
Trade and other borrowings	-	17,537

The carrying amount of the parent entity's financial assets and liabilities are denominated in Australian dollars except as below:

	JPY $	JPY $
Cash and cash equivalents	71,277	123,999
Trade and other receivables	130,045	264,710
Trade and other borrowings	-	17,537

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
AUD	2009	2008	2009	2008
JPY	73.37	98.42	76.90	101.93

26. Financial Instruments & Financial Risk Management (Continued)

The group and the parent entity operate domestically within Australia, although there are a minimal number of transactions with overseas suppliers. Distribution channels are through both an Australian wholesaler and overseas wholesale customers, however sales are made in Japanese Yen, which is the primary foreign exchange risk that the group is exposed to.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency. The risk is measured in the sensitivity analysis.

Sensitivity Analysis is based on exchange rates in Japanese Yen increasing or decreasing by 10% and the effect on profit and equity. A 10 percent strengthening and weakening of the Australian dollar against the Japanese Yen would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

Economic Entity

	Balance Sheet Amount AUD		Foreign Exchange Rate Risk							
			30 June 2009		30 June 2009		30 June 2008		30 June 2008	
	30 June 2009	30 June 2008	- 10%		+ 10%		- 10%		+ 10%	
			Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial Assets										
Cash and cash equivalents	71,277	123,999	7,882	7,882	-6,511	-6,511	13,755	13,755	-11,291	-11,291
Trade and other receivables	130,045	264,710	14,380	14,380	-11,879	-11,879	29,364	29,364	-24,104	-24,104
Financial Liabilities										
Trade and other borrowings	-	17,537	-	-	-	-	-1,945	-1,945	1,597	1,597
Total Increase/ (Decrease)			22,262	22,262	-18,390	-18,390	41,174	41,174	-33,798	-33,798

Parent Entity

	Balance Sheet Amount AUD		Foreign Exchange Rate Risk							
			30 June 2009		30 June 2009		30 June 2008		30 June 2008	
	30 June 2009	30 June 2008	- 10%		+ 10%		- 10%		+ 10%	
			Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
Financial Assets										
Cash and cash equivalents	71,277	123,999	7,882	7,882	-6,511	-6,511	13,755	13,755	-11,291	-11,291
Trade and other receivables	130,045	264,710	14,380	14,380	-11,879	-11,879	29,364	29,364	-24,104	-24,104
Financial Liabilities										
Trade and other borrowings	-	17,537	-	-	-	-	-1,945	-1,945	1,597	1,597
Total Increase/ (Decrease)			22,262	22,262	-18,390	-18,390	41,174	41,174	-33,798	-33,798

26. Financial Instruments & Financial Risk Management (Continued)

Price Risk

The group is exposed to fluctuations in pearl prices. However pearl products are not traded as a commodity on the open market and therefore the price cannot be hedged.

(b) Credit Risk Exposure

The Parent Entity's exposure to on balance sheet credit risk is indicated by the carrying amounts of its financial assets.

Credit exposure represents the extent of credit related losses that the Parent Entity may be subject to on amounts to be received for financial assets. All credit risks are located in Australia.

The groups maximum exposure to credit risk for receivables at reporting date by type of customer was:

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Trade Receivables				
Retail customers – no credit history	13,242	24,166	13,242	24,166
Wholesale customers – new customers	124,363	-	124,363	-
Wholesale customers – existing customers with no defaults in the past	48,782	306,803	48,782	306,803
MIS investors	4,529,409	-	4,529,409	-
Total Trade Receivables	4,715,795	330,969	4,715,795	330,969

The groups most significant receivables are from investors in the Arafura Pearl Project 2009. Investors were offered Terms Payment Facilities where payment of the investment could be made over a period of 9 months after payment of the initial deposit. A direct debit facility will be utilised to collect the instalments on a monthly basis.

The groups most significant customer, an Australian wholesaler, accounts for $48,782 of the trade receivables (excluding MIS investors) carrying amount at 30 June 2009 (2008: $306,803). The Company has now commenced sales to other wholesalers, and therefore the credit risk associated with sales to only one wholesale customer is reduced.

The aging of the groups trade receivables at the reporting date was:

	Gross	Impairment	Gross	Impairment
	2009 $	2008 $	2009 $	2008 $
Not past due	4,634,101	-	325,520	-
Past due 0-30 days	18,355	-	-	-
Past due 31 – 120 days	63,340	-	5,450	-
Past due 121 days to one year	-	-	-	-
More than one year	-	-	-	-
	4,715,795	-	330,969	-

Based on historic default rates, the group believes that no impairment allowance is necessary in respect of trade receivables. Receivables relating to the Australian wholesaler which is the groups most significant customer, while appearing in 31 – 120 days aging analysis, will be collected in full in accordance with the deferred payment terms agreed to between the two parties. The customer has a good credit history with the company, as do the balance of the customers. New wholesalers are on COD terms and goods are not released until payment for goods have been received, thus minimising the credit risk associated with new customers.

26. Financial Instruments & Financial Risk Management (Continued)

Liquidity Risk

Prudent liquidity risk management involves maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The group manages liquidity risk by continuously monitoring forecast and actual cash flows. Group management aims at maintaining flexibility in keeping committed credit facilities available.

The group had access to the following borrowing facilities at the reporting date.

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Variable rate instruments				
Bank Overdraft	6,000,000	3,500,000	6,000,000	3,500,000
	6,000,000	3,500,000	6,000,000	3,500,000

The overdraft is secured by a registered first debenture charge over the assets of the company.

(c) Interest Rate Risk

The Parent Entity is exposed to interest rate risk, which is the risk that the financial instrument's value will fluctuate as a result of changes in market interest rates.

At the reporting date the interest rate risk profile of the Company's and Group's interest bearing financial instruments was:

	Economic Entity		Parent Entity	
	30 June 2009 $	30 June 2008 $	30 June 2009 $	30 June 2008 $
Fixed rate instruments				
Financial Assets	1,411,069	4,465,291	1,384,483	4,439,520
Financial Liabilities	(5,751,060)	(2,919,086)	(5,751,060)	(2,919,086)
	(4,339,991)	1,546,205	(4,366,577)	1,520,434
Variable rate instruments				
Financial Liabilities	(5,953,797)	(3,290,242)	(5,953,797)	(3,290,242)
	(5,953,797)	(3,290,242)	(5,953,797)	(3,290,242)

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

The groups main interest rate risk arises from its borrowings. Given that the majority of borrowings are at fixed interest rates, the group considers that any fair value interest rate risk or cash flow risk will be immaterial.

26. Financial Instruments & Financial Risk Management (Continued)

Financial Instrument composition and maturity analysis

The tables below reflect the undisclosed contractual settlement terms for financial instruments of a fixed period or maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

					Fixed Interest Rate Maturing									
	Weighted Average effective interest rate		Floating Interest Rate		Within 1 year		1 to 5 years		Over 5 years		Non interest bearing		Total	
Economic Entity	2009 %	2008 %	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Financial Assets														
Cash and cash equivalents	2.83	2.76	1,411,069	4,465,291									1,411,069	4,465,291
Receivables											4,826,195	582,166	4,826,195	582,166
Total Financial Assets			1,411,069	4,465,291	-	-	-	-	-	-	4,826,195	582,166	6,237,264	5,047,457
Financial Liabilities														
Convertible Notes	8.86	13.46			2,662,716	269,260	-	2,269,260	-	-			2,662,716	2,538,520
Hire Purchase lease liabilities	7.19	8.79			851,627	365,941	657,659	331,484	2,319,652	223,041			3,828,938	920,466
Secured Borrowings	4.00	4.00			18,780	18,780	18,780	18,780	23,475	42,255			61,035	79,815
Trade and other payables	8.66	17.57			94,789	39,570					2,696,092	2,058,962	2,790,881	2,098,532
Bank overdraft	13.91	11.60	6,486,550	4,029,398									6,486,550	4,029,398
Total Financial Liabilities			6,486,550	4,029,398	3,627,912	693,551	676,439	2,619,524	2,343,127	265,296	2,696,092	2,058,962	15,830,120	9,666,732

26. Financial Instruments & Financial Risk Management (Continued)

					Fixed Interest Rate Maturing									
	Weighted Average effective interest rate		Floating Interest Rate		Within 1 year		1 to 5 years		Over 5 years		Non interest bearing		Total	
Parent Entity	2009 %	2008 %	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $	2009 $	2008 $
Financial Assets														
Cash and cash equivalents	2.81	2.73	1,384,483	4,439,520									1,384,483	4,439,520
Receivables											4,821,726	579,796	4,821,726	579,796
Total Financial Assets			1,384,483	4,439,520	-	-	-	-	-	-	4,821,726	579,796	6,206,209	5,019,316
Financial Liabilities														
Convertible Notes	8.86	13.46			2,662,716	269,260	-	2,269,260	-	-			2,662,716	2,538,520
Hire Purchase lease liabilities	7.19	8.79			851,627	365,941	657,659	331,484	2,319,652	223,041			3,828,938	920,466
Secured Borrowings	4.00	4.00			18,780	18,780	18,780	18,780	23,475	42,255			61,035	79,815
Trade and other payables	8.66	17.57			94,789	39,570					2,696,092	2,058,962	2,790,881	2,098,532
Bank overdraft	13.91	11.60	6,486,550	4,029,398									6,486,550	4,029,398
Total Financial Liabilities			6,486,550	4,029,398	3,627,912	693,551	676,439	2,619,524	2,343,127	265,296	2,696,092	2,058,962	15,830,120	9,666,732

26. Financial Instruments & Financial Risk Management (Continued)

(d) Net Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated net fair values of financial assets and liabilities held at balance date approximate those set out in Note 26 (a) & (b).

Fair Value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement for disclosure purposes. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques where applicable (such as estimated discount cash flows). Where this is unable to be done they are valued at cost.

The carrying amount less impairment provision of trade receivables and trade payables are assumed to approximate their fair values due to their short term nature.

27. Contingent Liabilities

The company has a contingent liability, in the form of a Bank Guarantee facility totalling $50,998, for security deposit guarantees for the leasing of office premises in Perth and a workshop in Darwin. The Bank Guarantees are cash backed and are offset by term deposits for each of the Guarantees

There are no other contingent liabilities at the date of this report other than a requirement under the Australian South Sea Pearl Projects to guarantee the provision of sufficient live shell by 6 months prior to seeding to enable registered growers to seed their allocated number of shell. Initial spat numbers selected per grower investment are in accordance with normal production projections which should allow for normal mortality levels and expected seeding numbers. The parent entity will transfer the right to seed shell from its own sources to a grower if required. Any surplus shell from growers that is not seeded will be available for return to the parent entity and seeded for the parent entity's benefit.

28. Segment Reporting

The consolidated entity operates predominantly in one business and geographical segment being the development and operation of a pearl oyster hatchery and related farming operations in Australia.

29. Going Concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realization of assets and settlement of liabilities in the ordinary course of business. During 30 June 2009 the Economic Entity incurred a net operating cash outflow of $10.3 million.

The ability of the consolidated entity to continue as a going concern is dependent upon it deriving sufficient funds for its operations and commitments. The directors continue to actively monitor the ongoing funding requirements of the company and the consolidated entity. The directors are confident that sufficient funds can be derived as and when required so as to enable the consolidated entity to continue as a going concern, and as such are of the opinion that the financial report has been appropriately prepared on a going concern basis.

The Directors consider the going concern basis to be appropriate for the following reasons:

- Subsequent to the raising of over $4.9million proceeds from the share issues during 30 June 2009, a further equity raising of over $1.1m is due to be finalised by the end of September 2009
- Up to $5m is expected to be raised from the issue of Convertible Notes in the short term
- Approximately $7.4 million of pearls on hand are available for sale, along with further harvest production from Elizabeth Bay to come during the September 2009 quarter. The sales program for the 2009 pearl harvest commenced in September 2009
- The Elizabeth Bay harvest was undertaken during September 2009, and combined with the harvest already undertaken at Beagle Bay, the 2009 harvest will be the watershed harvest for the Company. The company expects to be cash flow positive from underlying operations from this point onwards.
- The demonstrated ability to obtain funding through debt and equity issues despite difficult conditions in the equities market.

Because of these reasons, the Directors are confident that the consolidated entity will be able to continue to pay its debts as and when they become due and payable and that the basis of preparation of the financial report on a going concern basis is appropriate.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2009

30. New Accounting Standards for Application in Future Periods

The AASB has issued new, revised and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

  - acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
  - contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
  - a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
  - there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
  - dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
  - impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
  - where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.
  - The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

- AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result however.

  - AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

  - AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

30. New Accounting Standards for Application in Future Periods (Continued)

- AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.
- AASB 2008-2: Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation [AASB 7, AASB 101, AASB 132 & AASB 139 & Interpretation 2] (applicable for annual reporting periods commencing from 1 January 2009). These amendments introduce an exception to the definition of a financial liability to classify as equity instruments certain puttable financial instruments and certain other financial instruments that impose an obligation to deliver a pro-rata share of net assets only upon liquidation.
- AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.
- AASB 2008-8: Amendments to Australian Accounting Standards – Eligible Hedged Items [AASB 139] (applicable for annual reporting periods commencing from 1 July 2009). This amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation as a hedged item should be applied in particular situations and is not expected to materially affect the Group.
- AASB 2008-13: Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110] (applicable for annual reporting periods commencing from 1 July 2009). This amendment requires that non-current assets held for distribution to owners to be measured at the lower of carrying value and fair value less costs to distribute.
- AASB Interpretation 15: Agreements for the Construction of Real Estate (applicable for annual reporting periods commencing from 1 January 2009). Under the interpretation, agreements for the construction of real estate shall be accounted for in accordance with AASB 111 where the agreement meets the definition of 'construction contract' per AASB 111 and when the significant risks and rewards of ownership of the work in progress transfer to the buyer continuously as construction progresses. Where the recognition requirements in relation to construction are satisfied but the agreement does not meet the definition of 'construction contract', revenue is to be accounted for in accordance with AASB 118. Management does not believe that this will represent a change of policy to the Group.
- AASB Interpretation 16: Hedges of a Net Investment in a Foreign Operation (applicable for annual reporting periods commencing from 1 October 2008). Interpretation 16 applies to entities that hedge foreign currency risk arising from net investments in foreign operations and that want to adopt hedge accounting. The interpretation provides clarifying guidance on several issues in accounting for the hedge of a net investment in a foreign operation and is not expected to impact the Group.
- AASB Interpretation 17: Distributions of Non-cash Assets to Owners (applicable for annual reporting periods commencing from 1 July 2009). This guidance applies prospectively only and clarifies that non-cash dividends payable should be measured at the fair value of the net assets to be distributed where the difference between the fair value and carrying value of the assets is recognised in profit or loss.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 25 to 61 are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2009 and of the performance for the year ended on that date of the company and consolidated group;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   b. the financial statements and notes for the financial year comply with the Accounting Standards;
   c. and the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Andrew M R Hewitt
Director

Dated this 30th day of September 2009
Perth, Western Australia

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report as follows:

Shareholdings as at 11 September 2009

(a) Distribution of equity securities

(i) Ordinary share capital
229,487,838 fully paid ordinary shares are held by 723 individual shareholders
All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options
14,000,000 options are held by 11 option holders.
Options do not carry voting rights

The number of shareholders, by size, of holding, in each class are:

	Fully paid ordinary shares	Unlisted Options
1 – 1,000	3	-
1,001 – 5,000	64	-
5,001 – 10,000	116	-
10,001 – 100,000	339	3
100,001 and over	201	8
	723	11

Holding less than a marketable parcel

Shares – 40 shareholders
Options – 0 option holders

(b) Substantial Shareholders

The number of shares held by a substantial shareholder and their associates are set out below:

Shareholder	Number
A Hewitt	32,866,370
National Nominees Limited	22,000,000
M Davies	21,820,000
Pikachu Pty Ltd	16,681,487

ASX Additional Information

(c) Twenty largest holders of quoted equity securities

	Fully Paid	
Ordinary shareholders	Number of ordinary shares held	Percentage of capital held
IPWA Pty Ltd	32,866,370	14.32%
National Nominees Ltd	22,000,000	9.59%
M Davies	21,820,000	9.51%
Pikachu Pty Ltd	16,681,487	7.27%
D Van Zyl	8,950,590	3.90%
Miller Co Pty Ltd	7,915,980	3.45%
Dixson Trust Pty Ltd	7,765,000	3.38%
Citicorp Nominees Pty Ltd	4,297,300	1.87%
L & M Bussell	3,413,334	1.49%
P Howells	3,324,500	1.45%
Oran Nominees Pty Ltd	3,200,000	1.39%
Pasco Nominees Pty Ltd	2,716,934	1.18%
MHP Nominees Pty Ltd	2,630,000	1.15%
ANZ Nominees Ltd	2,622,702	1.14%
Wigram Investments Pty Ltd	2,450,000	1.07%
Xeen Pty Ltd	2,206,673	0.96%
Partnership Racwaik	2,034,686	0.89%
Clibern Pty Ltd	2,000,000	0.87%
Moslof No 3 Pty Ltd	1,960,000	0.85%
Westribe Investments Pty Ltd	1,600,463	0.70%
	152,456,019	66.43%

(d) Restricted securities

There are no restricted securities currently on issue.

e) Unquoted securities

The following unquoted securities are currently on issue:

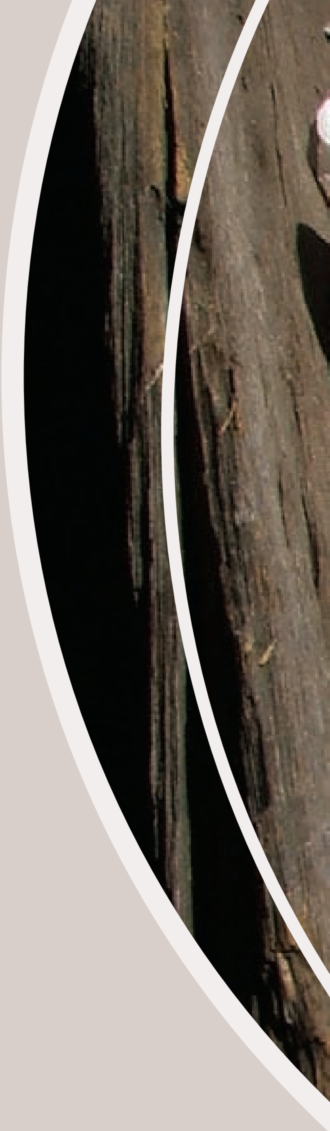
Security description	Number on issue	Number of holders
Convertible Notes maturing 30 June 2010	2,446,000	6
Options expiring 31 December 2009 ex $0.20	4,000,000	1
Options expiring 30 September 2010 ex $0.25	8,000,000	4
Options expiring 28 February 2010 ex $0.20	2,000,000	6

Holders of greater than 20% of each group of unquoted equity securities are as follows:

Security description	Option holder	Number of options
Options expiring 31 December 2009 ex $0.20	RM Capital Pty Ltd	4,000,000
Options expiring 30 September 2010 ex $0.25	IPWA Pty Ltd	4,000,000
Options expiring 30 September 2010 ex $0.25	M Ceglinski	2,000,000
Options expiring 28 February 2010 ex $0.20	Engrove Pty Ltd	700,000

There are currently no on-market buy backs.

The Company has used the cash and assets that were in a form readily convertible to cash that it held at 1 July 2008 until 30 June 2009, in a way that was consistent with its business objectives.



arafura
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