

**ARAFURA PEARLS HOLDINGS LIMITED**  
**ABN 88 092 266 067**

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**OFFER DOCUMENT**

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For a non-renounceable Entitlement issue of one (1) New Share for every one (1) Share held by Shareholders registered at 5:00pm (WDST) on 11 February 2010 at an issue price of two (2) cents per Share to raise up to approximately \$5,160,757 (**Offer**).

The Offer is partially underwritten to an amount of \$3,186,565. Further details are set out in Section 1.6 of this Offer Document.

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**IMPORTANT NOTICE**

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This document is not a prospectus. It does not contain all of the information that an investor would find in a prospectus or which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the New Shares offered by this document.

This document is important and requires your immediate attention. It should be read in its entirety. If you do not understand its content or are in doubt as to the course you should follow, you should consult your stockbroker or professional adviser without delay.

**This Offer opens on 17 February 2010 and closes at 5:00pm WST on 9 March 2010.**

Valid acceptances must be received before that time.

Please read the instructions in this document and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your Entitlement.

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## **IMPORTANT NOTES**

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No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Offer Document. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

### **Eligibility**

Applications for New Shares by Eligible Shareholders can only be made on an original Entitlement and Acceptance Form, as sent with this Offer Document. The Entitlement and Acceptance Form sets out an Eligible Shareholder's Entitlement to participate in the Offer.

### **Overseas shareholders**

The distribution of this Offer Document in jurisdictions outside Australia may be restricted by law and persons who come into possession of this Offer Document should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. No action has been taken to register or qualify the New Shares the subject of this Offer Document or otherwise permit a public offering of the New Shares the subject of this Offer Document in any jurisdiction outside Australia.

It is the responsibility of applicants outside Australia to obtain all necessary approvals for the allotment and issue of the Shares pursuant to this Offer Document. The return of a completed Entitlement and Acceptance Form will be taken by the Company to constitute a representation and warranty by the Applicant that all relevant approvals have been obtained.

### **Privacy Act**

If you complete an application for Shares, you will be providing personal information to the Company (directly or by the Company's share registry). The Company collects, holds and uses that information to assess your application, service your needs as a Shareholder, facilitate distribution payments and corporate communications to you as a Shareholder and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for your securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the Company's share registry.

You can access, correct and update the personal information that we hold about you. Please contact the Company or its share registry if you wish to do so at the relevant contact numbers set out in this Offer Document.

Collection, maintenance and disclosure of certain personal information is governed by legislation including the Privacy Act 1988 (Cth) (as amended), the Corporations Act and certain rules such as the ASTC Settlement Rules. You should note that if you do not provide the information required on the application for Shares, the Company may not be able to accept or process your application.

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## **PURPOSE OF THE ISSUE**

The Company's loan facilities with its bankers expired on 30 June 2009. Since that time the Company has been working to fully repay the bank's position. A significant reduction in debt has been achieved through diverting working capital from pearl sales and the Company's MIS sales program. At present the balance of the bank debt is approximately \$2.0M (reduced from \$6M).

As a consequence of applying ordinary working capital to reduce bank debt the Company's ability to manage its typical working capital requirements and maintain its other creditors on normal terms has been impeded, with trade creditors at 31 January 2010 totalling \$2.2 million.

As such the Company wishes to restore its working capital and creditor position to normal operating levels and remove the reliance on bank debt.

The purpose of the rights issue is to:

1. Fully repay the balance of outstanding bank facilities;
2. reduce outstanding creditors to normal trade terms; and
3. to supplement normal working capital to sustain ongoing activities within typical operating parameters.

The directors believe that a well supported rights issue will relieve the present position and provide sufficient buffer to cope with timing fluctuation in its lumpy revenue stream.

The directors intend to subscribe to the Issue for the amount of their full entitlement under the Offer.

## **INVESTMENT RISKS**

Prospective investors should read this Offer Document in its entirety and, in particular, before deciding on whether to apply for New Shares under this Offer Document, consider the risk factors set out in Section 3, which include:

- Industry risks such as those associated with the environment, disease, technical and product quality.
- Commodity price volatility and exchange rate risks.
- Lack of material subscription to the rights issue may, in the absence of alternative or additional funds, affect the Company's ability to continue operating.

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## 1. DETAILS OF THE OFFER

### 1.1 The Offer

The Company is making a non-renounceable pro rata offer of New Shares at an issue price of two (2) cents each on the basis of one (1) New Share for every one (1) Share held on the Record Date (**Offer**).

The proceeds raised under the Offer will be used to meet the expenses of the Offer, with the remainder to be used for repayment of bank facilities and reduction of trade creditors. The proposed use of funds is illustrated in the following table:

	<b>\$ '000</b>
Repayment of bank facility	2,000
Expenses of the Offer	210
Rights issue proceeds available for repayment of creditors and working capital (assuming maximum amount of \$5,160,757 subscribed)	2,951

\* At the Company's Annual General Meeting held on 26 November 2009, Shareholders approved the issue of up to \$5,000,000 in convertible notes (**Convertible Notes**) on certain terms for working capital to fund production growth.

While the Directors reserve their right to issue the Convertible Notes at a later date, the Directors are now of the opinion that this Offer (rather than the issue of the Convertible Notes) is the appropriate structure to raise capital and fund its ongoing working capital requirements and, as such, the proceeds of this Offer will be put towards this and the costs of the Offer. Shareholders should note that the above use of funds is a "best estimate" only and it is important to recognise that the use of funds may be subject to change in line with results, circumstances and other opportunities.

As at the Record Date, the Company has on issue 258,037,838 Shares and 9,450,000 Options. The Company expects that up to approximately 258,037,838 New Shares will be issued under the Offer.

Where the determination of the Entitlement of any Eligible Shareholder results in a fraction of a New Share, such fraction will be rounded up to the nearest whole New Share.

### 1.2 Timetable

<b>Event</b>	<b>Date</b>
<b>Announcement of Offer and Appendix 3B</b>	4 February 2010
<b>Offer Document and Cleansing Notice lodged with ASX</b>	4 February 2010
<b>Notice sent to Shareholders</b>	5 February 2010

<b>Ex Date</b> (date from which securities commence trading without the Entitlement to participate in the Offer)	8 February 2010
<b>Record Date</b> (date for determining Entitlements of Eligible Shareholders to participate in the Offer)	12 February 2010
<b>Offer Document Dispatched to Shareholders and Opening Date</b> (expected date of dispatch of Offer Document, Entitlement and Acceptance forms)	17 February 2010
<b>Closing Date* 5pm (WDST)</b>	9 March 2010
<b>Company to notify ASX of undersubscriptions (if any) **</b>	12 March 2010
<b>Dispatch holding statements **</b>	17 March 2010

\* Subject to the Listing Rules, the Directors reserve the right to extend the Closing Date for the Offer at their discretion. Should this occur, the extension will have a consequential effect on the anticipated date of issue for the New Shares.

\*\* These dates are indicative only.

### 1.3 Entitlements and acceptance

The Entitlement of Eligible Shareholders to participate in the Offer will be determined on the Record Date. Your Entitlement is shown on the Entitlement and Acceptance form accompanying this Offer Document.

You may accept for a lesser number of New Shares should you wish to take up only part of your Entitlement, and you may also apply for additional shares, as in section 1.4 below.

### 1.4 Application for Additional New Shares

Shareholders may apply for more than their Entitlement under the Offer by filling the boxes provided on the Entitlement and Acceptance Form for the additional number of shares which they require and including the payment for those shares with the payment for their Entitlement.

Small shareholders, in particular, may be interested to use this ability to apply for additional shares as a means of increasing their shareholding in the Company.

Non shareholders may apply by contacting the company on (08) 9382 4818 and an Application for Shortall Form will be provided.

## 1.5 No rights trading

The rights to New Shares under the Offer are non-renounceable. Accordingly, there will be no trading of rights on the ASX and you may not dispose of your rights to subscribe for New Shares under the Offer to any other party. If you do not take up your Entitlement to New Shares under the Offer by the Closing Date, the Offer to you will lapse.

## 1.6 Underwriting

In February 2010, the Company entered into underwriting agreements with various parties including the three Directors and other third parties (**Underwriters**) (**Underwriting Agreements**) to partially underwrite the corresponding number of New Shares offered pursuant to the Offer (representing 67% of the New Shares offered pursuant to the Offer):

<b>Underwriter</b>	<b>Underwritten Shares</b>	<b>Underwritten Amount</b>
IPWA Pty Ltd (director related – A Hewitt)	33,250,000	\$665,000
Bluerise Holdings Pty Ltd (director related – M Ceglinski)	1,500,000	\$30,000
Jeffrey Mews (director)	1,450,000	\$29,000
Mark Davies (existing shareholder)	27,500,000	\$550,000
National Nominees Pty Ltd (existing shareholder)	26,320,000	\$526,400
Simon Wu Pty Ltd	31,800,000	\$636,000
Other existing shareholders	37,508,250	\$750,165
Non-shareholders	12,580,000	\$251,600
<b>Total</b>	<b>171,908,250</b>	<b>\$3,438,165</b>

\* The Directors wish to advise that while some of the Underwriters to the Offer are current Shareholders, following the issue of the Underwritten Shares none of the Third Parties will hold more than 20% of the issued capital of the Company.

Pursuant to the Underwriting Agreements, the Company has agreed to pay the Underwriters an underwriting commission equal to 6% of the Underwritten Amount corresponding to the relevant Underwriter.

Each Underwriter is entitled to terminate an Underwriting Agreement upon the occurrence of any one or more of the termination events (**Termination Event**) including:

- (a) **adverse change:** any adverse change occurs which materially impacts or is likely to impact the assets, operational or financial position of the Company or a related corporation (including but not limited to an administrator, receiver, receiver and manager, trustee or similar official being appointed over any of the assets or undertaking of the Company or a related corporation);
- (b) **alteration of capital structure or constitution:** the Company alters its capital structure or its constitution without the prior written consent of the Underwriter;

- (c) **ASX listing:** ASX does not give approval for the Shares to be listed for official quotation, or if approval is granted, the approval is subsequently withdrawn, qualified or withheld;
- (d) **change in laws:** any of the following occurs:
- (i) the introduction of legislation into the Parliament of the Commonwealth of Australia or of any State or Territory of Australia; or
  - (ii) the public announcement of prospective legislation or policy by the Federal Government, or the Government of any State or Territory; or
  - (iii) the adoption by the ASIC, its delegates, ASX, the Reserve Bank of Australia or any other regulatory authority of any regulations or policy,
- which does or is likely to prohibit, restrict or regulate the principal business of the Company, the Offer or the operation of stock markets generally;
- (e) **default:** the Company is in default of any of the terms and conditions of this Agreement or breaches any warranty or covenant given or made by it under this Agreement;
- (f) **failure to comply:** the Company or any related corporation fails to comply with any of the following:
- (i) a provision of its constitution;
  - (ii) any statute;
  - (iii) a requirement, order or request, made by or on behalf of the ASIC or any Governmental Agency; or
  - (iv) any material agreement entered into by it;
- (g) **general meeting required:** ASX or the ASIC or any other governmental agency requires the Company to, or stipulates that the Company should, convene a general meeting to consider any aspect of the issue of the Shares, including, without limitation, the participation of the Underwriter or any sub-underwriter;
- (h) **hostilities:** there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this Agreement involving one or more of Australia, Philippines, Indonesia, Japan, Russia, the United Kingdom, the United States of America, or the Peoples Republic of China;
- (i) **indictable offence:** a director of the Company or any related corporation is charged with an indictable offence;
- (j) **investigation:** any person is appointed under any legislation in respect of companies to investigate the affairs of the Company or a related corporation;



- (k) **Judgment against a related corporation:** a judgment in an amount exceeding \$100,000 is obtained against the Company or a related corporation and is not set aside or satisfied within 7 days;
- (l) **Prescribed Occurrence:** a Prescribed Occurrence occurs;
- (m) **return of capital or financial assistance:** the Company or a related corporation takes any steps to undertake a proposal contemplated under section 257A or passes or takes any steps to pass a resolution under section 260B of the Corporations Act, without the prior written consent of the Underwriter; or
- (n) **Suspension of debt payments:** the Company suspends payment of its debts generally.

## 1.7 Control Effect on the Company

The potential voting power of the parties set out above in the Company and the effect of the partial underwriting by them is set out in the table below. The table sets out various scenarios to indicate the effect on the Company's shareholding depending on the shortfall from the Offer (if any). As at the record date, the parties set out above have a relevant interest in the number of Shares set out in the table below.

<b>Event</b>	<b>Number of Shares of the Company held by the Underwriter</b>	<b>Voting power of the Underwriter in the Company</b>
<b><i>Holding as at the date of the Offer Document</i></b>		
IPWA Pty Ltd	34,040,470	13.2%
Bluerise Holdings Pty Ltd	601,275	0.2%
J Mews	652,559	0.2%
M Davies	30,825,000	12.0%
National Nominees	22,000,000	8.5%
Simon Wu Pty Ltd	2,060,000	0.8%
Other shareholder underwriters	39,678,337	15.4%
<b><i>After issue of Shares to the Underwriters assuming 100% Shortfall</i></b>		
IPWA Pty Ltd	67,290,470	15.7%
Bluerise Holdings Pty Ltd	2,101,275	0.5%
J Mews	2,102,559	0.5%
M Davies	58,325,000	13.6%
National Nominees	48,320,000	11.2%
Simon Wu Pty Ltd	33,860,000	7.9%
Other shareholder underwriters	52,258,337	12.2%
<b><i>After issue of Shares to the Underwriters assuming 75% Shortfall</i></b>		
IPWA Pty Ltd	67,290,470	13.6%
Bluerise Holdings Pty Ltd	2,101,275	0.4%
J Mews	2,102,559	0.4%
M Davies	58,325,000	11.8%
National Nominees	48,320,000	9.8%
Simon Wu Pty Ltd	33,860,000	6.9%
Other shareholder underwriters	52,258,337	10.6%

<b>After issue of Shares to the Underwriters assuming 50% Shortfall</b>		
IPWA Pty Ltd	58,994,939	11.4%
Bluerise Holdings Pty Ltd	1,727,041	0.3%
J Mews	1,740,799	0.3%
M Davies	51,464,034	10.0%
National Nominees	41,753,432	8.1%
Simon Wu Pty Ltd	25,926,229	5.0%
Other shareholder underwriters	49,119,757	9.5%

The number of securities held by the Underwriters and their voting power in the table above show the potential effect of the underwriting of the Offer. However, it is unlikely that no shareholders will take up their entitlements under the Offer. The underwriting obligation of the Underwriters, and therefore voting power of the Underwriters, will reduce by a corresponding amount for the amount of entitlements under the Offer taken up by other shareholders. In addition, the future pattern of shareholding of the Company will change depending on the take up of entitlements under the Offer of the other shareholders.

If all shareholders take up their entitlements under the Offer, the Offer itself will not have a material effect on the control of the Company.

## 1.8 Directors' Entitlement

The current interests of the Directors in Shares and their maximum subscription to the Issue pursuant to their underwriting agreement is set out in the table below.

<b>Director</b>	<b>Current relevant interest in Shares</b>	<b>Maximum Subscription for New Shares</b>
Andrew Hewitt	34,040,470	33,250,000
Mark Ceglinski	601,275	1,125,766
Jeffrey Mews	652,559	1,088,240

## 1.9 Shortfall

If you do not wish to take up any part of your Entitlement you are not required to take any action. That part of your Entitlement not taken up will form part of the Shortfall and will, in part, revert to the Underwriters.

The issue price of any Shares offered pursuant to the Shortfall Offer shall be 2 cents, being the price at which the Entitlement has been offered to Shareholders pursuant to this Offer Document. Part of the Shortfall will be taken up by the Underwriters and the Directors reserve the right to place the balance of the Shortfall at their discretion.

## 1.10 Opening and Closing Dates

The Offer opens on the Opening Date, being 17 February 2010. The Company will accept Entitlement and Acceptance Forms until 5:00 pm WST on the Closing Date, being 9 March 2010 or such other date as the Directors in their absolute

discretion shall determine, subject to the Listing Rules.

### **1.11 Issue and despatch**

The expected dates for issue of New Shares offered by this Offer Document and despatch of holding statements is expected to occur on the dates specified in the Timetable set out in Section 1.2.

It is the responsibility of applicants to determine the allocation prior to trading in the New Shares. Applicants who sell New Shares before they receive their holding statements will do so at their own risk.

### **1.12 ASX listing**

Application for official quotation by ASX of the New Shares offered pursuant to this Offer Document will be made within 7 days after the date of this Offer Document. If approval is not obtained from ASX before the expiration of 3 months after the date of this Offer Document (or such period as varied by the ASIC) the Company will not issue any New Shares and will repay all application monies for the New Shares within the time prescribed under the Corporations Act, without interest.

The fact that ASX may grant official quotation to the New Shares is not to be taken in any way as an indication of the merits of the Company or the New Shares now offered for subscription.

### **1.13 CHESS**

The Company will apply to ASX to participate in CHESS, for those investors who have, or wish to have, a sponsoring stockbroker. Investors who do not wish to participate through CHESS will be issuer sponsored by the Company. Because the sub-registers are electronic, ownership of securities can be transferred without having to rely upon paper documentation.

Electronic registers mean that the Company will not be issuing certificates to investors. Instead, investors will be provided with a statement (similar to a bank account statement) that sets out the number of New Shares allotted to them under this Offer Document. The notice will also advise holders of their Holder Identification Number (**HIN**) and explain, for future reference, the sale and purchase procedures under CHESS and issuer sponsorship.

Further monthly statements will be provided to holders if there have been any changes in their security holding in the Company during the preceding month.

### **1.14 Overseas Eligible Shareholders**

No Offer will be made to Eligible Shareholders resident outside Australia and New Zealand.

New Shares to which any Eligible Shareholders who are not resident in Australia or New Zealand would otherwise be entitled will form part of the Shortfall issued to the Underwriters or their nominees (or alternatively may be placed at the discretion of the Directors in the event that the Underwriting Agreements are terminated).

**This Offer Document and accompanying Entitlement and Acceptance Form do not, nor are they intended to, constitute an offer in any place in which, or to any person to whom, it would not be lawful to make such an offer.**

### **1.15 Taxation implications**

The Directors do not consider it appropriate to give Shareholders advice regarding the taxation consequences of subscribing for New Shares under this Offer Document. The Company, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders.

Shareholders should consult their professional tax adviser in connection with subscribing for New Shares under this Offer Document.

### **1.16 Risk factors**

An investment in New Shares should be regarded as speculative. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company which are described in Section 3.

### **1.17 Enquiries concerning Offer Document**

Enquiries concerning the Entitlement and Acceptance Form can be obtained by contacting Security Transfer Registrars Pty Ltd by telephone on (08) 9315 2333. Enquiries relating to this Offer Document should be directed to the Company Secretary by telephone on (08) 9382 4818.

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## 2. ACTION REQUIRED BY SHAREHOLDERS

### 2.1 How to Accept the Offer

Your acceptance of the Offer must be made on the Entitlement and Acceptance Form accompanying this Offer Document. Your acceptance must not exceed your Entitlement as shown on that form. If it does, your acceptance will be deemed to be for the maximum Entitlement.

You may participate in the Offer as follows:

- (a) if you wish to accept your Entitlement in full:
  - (i) complete the Entitlement and Acceptance Form, filling in the details in the spaces provided; and
  - (ii) attach your cheque for the amount indicated on the Entitlement and Acceptance Form; or
- (b) if you only wish to accept part of your Entitlement:
  - (i) fill in the number of Shares you wish to accept in the space provided on the Entitlement and Acceptance Form; and
  - (ii) attach your cheque for the appropriate application monies (at 5 cents per Share); or
- (c) if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

All cheques must be drawn on an Australian bank or bank draft made payable in Australian currency to “**Arafura Pearls Holdings Limited – Share Account**” and crossed “**Not Negotiable**”.

Your completed Entitlement and Acceptance Form and cheque must reach the Company no later than 5:00pm (WDST) on the Closing Date.

The Offer is non-renounceable. Accordingly, a holder of Shares may not sell or transfer all or part of their Entitlement.

### 2.2 Applying for more than your Entitlement

If you wish to apply for more than your allocated Entitlement to Shares, please complete the boxes provided on the Entitlement and Acceptance Form, both in relation to the number of additional shares for which application is being made and the total amount to be paid.

Applicants should send one cheque to include the total amount payable for their Entitlement and the Shortfall Application.

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### **3. RISK FACTORS**

#### **3.1 Introduction**

An investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Offer Document, before deciding whether to apply for Shares.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

#### **3.2 Introduction**

The aquaculture industry is a high risk industry, and Pearl farming is a high risk business. The Company has reached a stage of maturity where some of this risk has been reduced. In addition, the Company will continue to monitor risk and undertake appropriate actions to minimise ongoing risk. Notwithstanding this, an investment in the Company is not risk free and prospective new investors should consider the risk factors described below, together with information contained elsewhere in this Offer Document, before deciding whether to apply for Shares pursuant to this Offer Document.

The following is not intended to be an exhaustive list of the risk factors to which the Company is exposed.

#### **3.3 Industry and Business Risk**

Risk factors involved with the aquaculture industry and Pearl farming include:

##### **(a) Pollution**

Pollution is a direct threat to Oysters that live in the ocean and can have a detrimental impact on Oyster mortality, Pearl size and quality.

##### **(b) Weather**

Pearl farms are located in tropical areas that experience cyclone and other violent storm activity. Storms can pose a threat to both the health of the Oysters and the farm facilities.

Cyclone Ingrid (Category 5), which passed over the Company's farm area in March 2005, had a significant adverse impact on the Company's operations, with Cyclone Monica passing to the north of the project area with little impact in April 2006. Prior to these events there had not been a tropical storm/cyclonic activity greater than Category 2, which is not considered severe, within 150 km of Nhulunbuy in the previous 40 years.

Nonetheless, cyclones are a recognised risk of pearling operations, which are almost universally conducted in tropical waters, and the Company has implemented procedures and strategies to mitigate the risk.

##### **(c) Technical**

Pearl farming is a delicate process and requires sound technical judgement to maximise Oyster survival and Pearl quality. The

appointment of highly experienced Pearl farming staff ensures that the most efficient procedures will be followed to maximise Oyster survival and Pearl quality.

**(d) Disease**

Pearl Oysters are animals and as such are susceptible to disease and biological conditions. Oyster health is continuously monitored by marine biologists and industry experienced staff members.

**(e) Safety**

The Company's Pearl farm is located in the Northern Territory. In a remote environment, illness and accidents can have a detrimental impact on the operation of the Company. The Company has implemented an occupational health and safety program. Onsite staff are trained in first aid and emergency evacuation procedures are in place.

**(f) Loss of Key Staff**

Pearl farm operations are dependent on a small number of experienced staff. Appropriate remuneration packages and working conditions are offered to encourage key staff members to maintain employment at the Company.

**(g) Management Ability**

The Company is dependent on the ability of key staff to manage the ongoing operations of the Pearl farm project. Low quality management may adversely affect the operations of the Company. The Company has a strong management team with prior experience in the Pearl industry.

**(h) Default of Contracting Parties**

Any default by relevant parties of any of the material agreements (eg suppliers, consultants) may have an adverse impact on the operation of the Company.

**(i) International Competition**

Other countries in the Asian region also farm Pearls and are competitors to Australian production. An increase in production in these regions may result in an oversupply of Pearls in the world market.

**(j) Currency Fluctuations**

The majority of the Company's Pearl production will be exported. Pearl sales are often transacted in Japanese Yen or other foreign currency. Any change in the value of the Australian dollar in relation to the Japanese Yen or other foreign currency may have an effect on the price and demand of Australian South Sea Pearls in the export market.

**(k) Product Quality**

The price obtainable for Pearls is determined by the size and quality of the Pearl. The Company will employ the latest aquaculture techniques,

suitably qualified personnel and appropriate quality control systems to ensure that production quality is of the highest possible standard.

**(l) Commodity Prices**

Pearl market prices are dependant on the supply of and the demand for Pearls. Adverse fluctuations in either or both factors may result in reduced Pearl prices being obtained by the Company.

**(m) Licences and Quota**

The Australian Pearl industry is regulated through the use of a Quota system. Changes to the Quota system may impact on production levels and the prices achieved for Pearls.

**(n) Security**

Pearls are a high value commodity and accordingly the risk of theft is present. The Company regularly reviews the appropriateness of its security measures.

**(o) Insurance**

Through its business, the Company is exposed to many risks which are inherent in the Pearl farming industry, some of which from time to time may not be insurable on a cost effective basis, or with cover for all possible losses.

**(q) Regulatory Risk**

The Northern Territory pearl industry is regulated through the use of a quota system. Changes to the quota system may impact production levels and prices of pearls. There is a significant production lead time from any decision to increase production to the presentation of pearls available for sale. A change in the present quota system will require a number of years to pass before there is an impact on supply.

**(r) Unforeseen Expenditure**

Expenditure may need to be incurred that has not been taken into account in the preparation of this Offer Document. Although the Company is not aware of any such additional expenditure requirements, if such expenditure is subsequently incurred, this may adversely affect the expenditure proposals of the Company.

**(s) Insufficient Capital Raising**

Should there not be a material subscription to the rights issue then the company may not be able to fully repay its outstanding bank facilities, pay its outstanding creditors or have sufficient working capital for ongoing activities. Subject to the availability of working capital from normal activities and other capital raising initiatives this may impact the company's ability to continue as a going concern or its ongoing viability.

**3.4 Economic Risks**

General economic conditions, movements in interest and inflation rates and



currency exchange rates may have an adverse effect on the Company's Pearl farming activities, as well as on its ability to fund those activities.

Further, share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- (a) general economic outlook;
- (b) interest rates and inflation rates;
- (c) currency fluctuations;
- (d) changes in investor sentiment toward particular market sectors;
- (e) the demand for, and supply of, capital; and
- (f) terrorism or other hostilities.

### **3.5 Additional Requirements for Capital**

The Company's capital requirements depend on numerous factors. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised in the Offer. Any additional equity financing will dilute shareholdings, whilst debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the planned scope of its operations.

### **3.6 Market Conditions**

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.

### **3.7 Permit Risks and Native Title**

Interests in tenements in Australia are governed by the respective State legislation and are evidenced by the granting of licences or leases. Each licence or lease is for a specific term and carries with it annual expenditure and reporting commitments, as well as other conditions requiring compliance. Consequently, the Company could lose title to or its interest in tenements if licence conditions are not met.

It is also possible that, in relation to licences and leases in which the Company has an interest, there may be areas over which legitimate common law native title rights of Aboriginal Australians exist. If native title rights do exist, the ability of the Company to gain or retain access to tenements (through obtaining consent of any relevant landowner) may be adversely affected.

### **3.8 Reliance on Key Management**

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease

their employment.

### **3.9 Investment Speculative**

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Offer Document. Therefore, the securities to be issued pursuant to this Offer Document carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for securities pursuant to this Offer Document.

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#### 4. DEFINED TERMS

**Applicant** refers to a person who submits an Entitlement and Acceptance Form.

**Application** refers to the submission of an Entitlement and Acceptance Form.

**ASX** means ASX Limited (ACN 008 624 691) or, where the context permits, the Australian Securities Exchange operated by ASX Limited.

**Closing Date** means 5.00pm WST 9 March 2010.

**Company** means Arafura Pearls Holdings Limited (ABN 88 092 266 067).

**Directors** means the directors of the Company.

**Eligible Shareholder** means a Shareholder whose details appear on the Company's register of Shareholders as at the Record Date.

**Entitlement** means the entitlement to subscribe for one (1) New Share for every one (1) Share held by an Eligible Shareholder on the Record Date and **Entitlements** has a corresponding meaning.

**Entitlement and Acceptance Form** means the Entitlement and Acceptance Form accompanying this Offer Document.

**Force Majeure** means any act of God, war, revolution, or any other unlawful act against public order or authority, an industrial dispute, a governmental restraint, or any other event which is not within the control of the parties.

**Governmental Agency** means any government or any governmental, semi-governmental, administrative, fiscal or judicial body, department, commission, authority, tribunal, agency or entity.

**Listing Rules** means the Listing Rules of the ASX.

**New Share** means a new Share proposed to be issued pursuant to this Offer.

**Option** means an option to acquire a Share.

**Offer** means the non-renounceable pro rata offer of New Shares at an issue price of 2 cents each on the basis of one (1) New Share for every one (1) Share held on the Record Date pursuant to this Offer Document.

**Offer Document** means this Offer Document dated 17 February 2010.

**Opening Date** means 17 February 2010.

**Prescribed Occurrence** means:

- (a) the Company or a related corporation converting all or any of its shares into a larger or smaller number of shares;
- (b) the Company or a related corporation resolving to reduce its share capital in any way;
- (c) the Company or a related corporation:
  - (i) entering into a buy-back agreement or;

- (ii) resolving to approve the terms of a buy-back agreement under section 257C or 257D of the Corporations Act;
- (d) the Company or a related corporation making an issue of, or granting an option to subscribe for, any of its shares, or agreeing to make such an issue or grant such an option;
- (e) the Company or a related corporation issuing, or agreeing to issue, convertible notes;
- (f) the Company or a related corporation disposing, or agreeing to dispose, of the whole, or a substantial part, of its business or property;
- (g) the Company or a related corporation charging, agreeing to charge, the whole, or a substantial part, of its business or property;
- (h) the Company or a related corporation resolving that it be wound up;
- (i) the appointment of a liquidator or provisional liquidator to the Company or a related corporation;
- (j) the making of an order by a court for the winding up of the Company or a related corporation;
- (k) an administrator of the Company or a related corporation, being appointed under section 436A, 436B or 436C of the Corporations Act;
- (l) the Company or a related corporation executing a deed of company arrangement; or
- (m) the appointment of a receiver, or a receiver and manager, in relation to the whole, or a substantial part, of the property of the Company or a related corporation.

**Record Date** means 12 February 2010.

**Section** means a section of this Offer Document.

**Share** means an ordinary fully paid share in the capital of the Company.

**Shortfall** means those Shares under the Offer not applied for by Shareholders under their Entitlement.

**Shortfall Offer** means the offer for the Shortfall pursuant to this Offer Document.

**Shareholder** means a holder of Shares.

**WST** means Australian Western Standard Time.