



ATLAS SOUTH SEA PEARL LIMITED
ABN 32 009 220 053

Appendix 4E – Preliminary Final Report
For the Year Ended 31 December 2010

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Results for announcement to the market

Consolidated Financial Results	Compared to actual for previous year ended 31 December 2009		Year Ended 31 December 2010
Total revenue from ordinary activities	Up	42%	9,841,695
Profit / (loss) from ordinary activities after tax attributable to members	Up	N/A	2,308,493
Net Profit/(loss) attributable to members	Up	N/A	2,308,493
Dividends	Amount per security		Franked Amount per security
Dividend per ordinary share in respect of 31 December 2010 financial year	0.0 cents		0.0 cents

Brief Explanation

Refer to the section headed “**Commentary on the Results**” for a brief explanation of the results.

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	CONSOLIDATED	
		2010 \$	2009 \$
Revenue from continuing operations	2	9,841,695	6,908,444
Cost of goods sold		(5,160,941)	(3,511,366)
Gross profit		4,680,754	3,397,078
Other income	2	4,218,594	4,239,650
Marketing expenses		(272,722)	(859,683)
Administration expenses	3	(3,526,547)	(5,378,281)
Finance costs	3	(191,971)	(148,014)
Research and development		(55,280)	(50,000)
Other expenses	3	(2,119,822)	(8,713,329)
Profit/(Loss) before income tax		2,733,006	(7,512,579)
Income tax (expense)/benefit		(424,513)	329,866
Profit/(Loss) for the year from continuing operations		2,308,493	(7,182,713)
Other comprehensive income/(expenses)			
Exchange differences on translation of foreign operations		(926,494)	(1,139,891)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income/(expenses) for the year, net of tax		(926,494)	(1,139,891)
Total comprehensive income/(expenses) for the year		1,381,999	(8,322,604)
Profit/(loss) is attributable to:			
Owners of the Company		2,308,493	(7,182,713)
Total comprehensive income/(expenses) is attributable to:			
Owners of the Company		1,381,999	(8,322,604)
Overall operations:			
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents)	4	1.82	(6.25)
Diluted earnings per share (cents)	4	N/A	N/A

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Note	CONSOLIDATED	
		2010 \$	2009 \$
Current assets			
Cash and cash equivalents		998,335	2,508,711
Trade and other receivables		1,387,324	1,451,355
Financial instruments	5	240,053	12,468
Inventories	6	6,320,016	2,675,646
Biological assets	7	5,305,465	8,800,587
Total current assets		14,251,193	15,448,767
Non-current assets			
Trade and other receivables		173,698	162,565
Inventories	6	83,415	103,913
Biological assets	7	8,476,047	5,816,129
Property, plant and equipment		2,217,156	2,195,780
Deferred tax assets		1,374,767	1,040,645
Total non-current assets		12,325,083	9,319,032
Total assets		26,576,276	24,767,799
Current liabilities			
Trade and other payables		1,792,293	1,440,904
Borrowings	8	3,596,120	4,271,994
Financial instruments	5	-	-
Current tax liabilities		164,559	680,895
Short-term provisions		-	468,035
Total current liabilities		5,552,972	6,861,828
Non-current liabilities			
Trade and other payables		-	24,679
Deferred tax liabilities		1,800,493	1,187,607
Long term provisions		-	15,281
Total non-current liabilities		1,800,493	1,227,567
Total liabilities		7,353,465	8,089,395
Net assets		19,222,811	16,678,404
Equity			
Contributed equity	9	23,234,922	22,073,494
Reserves	10	(7,116,002)	(6,190,488)
Retained profits		3,103,891	795,398
Total equity		19,222,811	16,678,404

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2010

Consolidated	Attributable to owners of Atlas South Sea Pearl Limited			
	Contributed equity	Reserves	Retained earnings	Total equity
	\$	\$	\$	\$
Balance at 1 January 2009	19,250,564	(5,057,532)	7,978,111	22,171,143
Total comprehensive income for the year	-	(1,139,891)	(7,182,713)	(8,322,604)
Transactions with owners in their capacity as owners				
Contributions of equity, net of transaction costs	2,822,930	-	-	2,822,930
Dividends provided for or paid	-	-	-	-
Employee share scheme	-	6,935	-	6,935
	2,822,930	6,935	-	2,829,865
Balance at 31 December 2009	22,073,494	(6,190,488)	795,398	16,678,404
Balance at 1 January 2010	22,073,494	(6,190,488)	795,398	16,678,404
Total comprehensive income for the year	-	(926,494)	2,308,493	1,381,999
Transactions with owners in their capacity as owners				
Contributions of equity, net of transaction costs	1,161,428	-	-	1,161,428
Dividends provided for or paid	-	-	-	-
Employee share scheme	-	980	-	980
	1,161,428	(925,514)	2,308,493	2,544,407
Balance at 31 December 2010	23,234,922	(7,116,002)	3,103,891	19,222,811

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cashflows

For the year ended 31 December 2010

	Consolidated	
	2010	2009
	\$	\$
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	9,219,224	8,528,517
Proceeds from other operating activities	639,244	229,171
Interest paid	(158,706)	(112,805)
Interest received	39,004	46,093
Payments to suppliers and employees	(9,666,415)	(9,804,468)
Income taxes paid	(1,239,650)	(341,729)
	<hr/>	
Net cash provided by/(used in) operating activities	(1,167,299)	(1,455,220)
Cash flows from investing activities		
Payments for property, plant and equipment	(730,950)	(109,178)
Proceeds on disposal of fixed assets	-	-
	<hr/>	
Net cash provided by/(used in) investing activities	(730,950)	(109,178)
Cash flows from financing activities		
Proceeds from borrowings	15,743,940	8,575,029
Repayment of borrowings	(16,465,161)	(7,733,109)
Proceeds from issue of shares	1,091,427	2,822,931
Loan of funds to employees	-	-
Repayment of loan to employees	47,250	-
Payments for purchase of company shares	-	-
Dividend payment	-	-
	<hr/>	
Net cash provided by/(used in) financing activities	417,456	3,664,851
	<hr/>	
Net increase/(decrease) in cash held	(1,480,793)	2,100,453
Cash and cash equivalents at the beginning of the financial year	2,508,711	437,464
Effects of exchange rate changes on cash and cash equivalents	(29,583)	(29,206)
	<hr/>	
Cash and cash equivalents at the end of the financial year	998,335	2,508,711
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The above statement of cashflows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report covers the economic entity of Atlas South Sea Pearl Ltd and its controlled entities. Atlas South Sea Pearl Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report of Atlas South Sea Pearl Ltd and its controlled entities has been prepared in accordance with Australian Accounting Standards, which includes AIFRS, and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

b) Revenue recognition

- (a) Sales revenue comprises of revenue earned from the sale of products or services to entities outside the consolidated entity. Sales revenue is recognised when the goods are provided or when the fee in respect of services provided is receivable.
- (b) Interest income is recognised as it accrues.
- (c) Asset sales revenue comprises of the gross proceeds of the assets. The profit and loss on disposal of assets is brought to account at the date on which an unconditional contract is signed.

c) Biological Assets

Oysters are measured at their fair value less estimated point of sale costs. The fair value of oysters is determined by using the present value of expected net cash flows from the oysters, discounted using a pre-tax market determined rate.

Changes in fair value less estimated point of sale costs of oysters are recognised in the income statement in the year they arise.

Pearls are initially measured at their fair value less estimated point of sale costs at the time of harvest. The fair value of pearls is determined by reference to market prices for pearls at the time of harvest.

The gain on initial recognition of pearls is recognised in the income statement in the year of harvest. At the time of harvest, pearls are recorded as inventory.

d) Other accounting policies

A full description of other accounting policies was included in the financial report for the half year ended 30 June 2010 and will also be included in the 31 December 2010 annual report.

Notes to the Financial Statements (continued)

2. Revenue

	Consolidated	
	2010	2009
	\$	\$
Sales Revenue		
Sale of goods	9,544,904	6,762,305
Other Revenue		
Interest income	38,383	51,741
Other revenues	258,408	94,398
Revenue	9,841,695	6,908,444
Change in net market value of biological assets		
Change in fair value less point of sale costs of oysters	331,297	-
Gain arising on initial recognition of harvested pearls	2,387,567	-
	<u>2,718,864</u>	<u>-</u>
Other Income		
Foreign exchange gains	1,160,827	1,268,163
Gain on financial instruments	287,853	2,971,487
Gain on bargain purchase of pearling operation	51,050	-
Other Income	4,218,594	4,239,650

3. Profit before income tax includes the following specific expenses:

Finance Costs

Interest and finance charges payable	191,971	148,014
	<u>191,971</u>	<u>148,014</u>

Administration expenses from ordinary activities

Salaries & Wages	1,751,474	1,466,874
Depreciation property, plant and equipment	53,849	74,284
Loss on financial instruments	87,665	1,261,416
Provision for tax penalties	-	400,656
Provision for indirect taxes (previous years)	-	428,917
Other	1,633,559	1,746,134
	<u>3,526,547</u>	<u>5,378,281</u>

Notes to the Financial Statements (continued)

3. Profit before income tax includes the following specific expenses (Cont)

	Consolidated	
	2010	2009
	\$	\$
Other expenses from ordinary activities		
Provision for employee entitlements	57,006	45,479
Foreign exchange loss	1,772,854	934,779
Change in fair value less point of sale costs of oysters	-	6,678,709
Impairment losses - financial assets	65,875	84,875
Impairment of other assets - inventories	221,087	969,487
	2,119,822	8,713,329

4. Earnings per Share

	Consolidated	
	2010	2009
	CENTS	CENTS
Basic earnings per share (cents per share)	1.82	(6.25)
Diluted earnings per share (cents per share)	N/A	N/A

	Consolidated	
	2010	2009
	\$	\$
Earnings reconciliation		
Net profit/(loss) used for basic earnings	2,308,493	(7,182,713)
After tax effect of dilutive securities	-	-
Diluted earnings	2,308,493	(7,182,713)

	No.	No.
The Number of shares used in the EPS calculations are as follows:		
Weighted average number of ordinary shares	127,186,864	114,837,084
Diluted weighted average number of ordinary shares	127,186,864	114,837,084

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 31 December as potential ordinary shares. There were no options or other equities on issue that would create a dilutive effect as at 31 December.

Notes to the Financial Statements (continued)

5. Financial Instruments

	Consolidated	
	2010	2009
Derivative financial assets	240,053	12,468
Derivative financial liabilities	-	-

Derivative financial assets and liabilities comprise forward foreign exchange contracts and foreign currency options which are in place as cash flow hedges. Gains and losses arising from changes in fair value of foreign exchange contracts are recognised in the income statement in the period in which they arise. These financial instruments are classed as held for trading.

6. Inventories

	Consolidated	
	2010	2009
CURRENT		
Pearls –at fair value	4,396,666	2,355,683
Pearls – impairment	-	(522,042)
Other – at cost	1,923,350	842,005
	<u>6,320,016</u>	<u>2,675,646</u>
NON CURRENT		
Nuclei – at cost	83,415	103,913
	<u>6,403,431</u>	<u>2,779,559</u>
TOTAL INVENTORY		

7. Biological assets

CURRENT		
Oysters – at fair value	5,305,465	8,800,587
	<u>5,305,465</u>	<u>8,800,587</u>
NON CURRENT		
Oysters – at fair value	8,476,047	5,816,129
	<u>8,476,047</u>	<u>5,816,129</u>
TOTAL BIOLOGICAL ASSETS	<u><u>13,781,512</u></u>	<u><u>14,616,716</u></u>

Notes to the Financial Statements (continued)

8. Borrowings

	Consolidated	
	2010	2009
	\$	\$
CURRENT		
Secured		
Bank loan	3,465,814	4,187,535
Lease liabilities	24,091	-
Total secured current borrowings	3,489,905	4,187,535
Unsecured		
Other	106,215	84,459
Total current borrowings	3,596,120	4,271,994

The bank loan is secured by a registered company charge by Atlas South Sea Pearl Limited over the whole of its assets and undertakings including uncalled capital. The bank loans are provided under a Japanese Yen facility with fixed interest rates varying from 4.93% to 5.15% and are repayable within the year.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

9. Contributed Equity

	Consolidated	
	2010	2009
	\$	\$
Fully paid Ordinary Shares	23,234,922	22,073,494

Reconciliation of Contributed Equity 2010

	No.	\$
Ordinary Shares :		
At the beginning of the financial year	125,483,097	22,073,494
Shares issued	10,875,000	1,161,428
Shares bought back and cancelled	-	-
At the end of the financial year	136,358,097	23,234,922

Reconciliation of Contributed Equity 2009

	No.	\$
Ordinary Shares :		
At the beginning of the financial year	89,220,890	19,250,564
Shares issued	36,262,207	2,822,930
Shares bought back and cancelled	-	-
At the end of the financial year	125,483,097	22,073,494

Notes to the Financial Statements (continued)

10. Reserves

	Consolidated	
	2010	2009
	\$	\$
Foreign currency translation reserve	(7,183,002)	(6,256,508)
Employee share reserve	67,000	66,020
	<u>(7,116,002)</u>	<u>(6,190,488)</u>

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries to the presentation currency.

The employee share reserve records the value of equity based remuneration to executives of the company.

11. Retained Profits

	Consolidated	
	2010	2009
	\$	\$
Balance at beginning of the year	795,398	7,978,111
Net profit/(loss) for the year	2,308,493	(7,182,713)
Dividends paid	-	-
Balance at end of year	<u>3,103,891</u>	<u>795,398</u>

12. Contingent Assets

The Company's subsidiary, PT Cendana Indopearls, has received a tax assessment in relation to its 2007 year from the Indonesian Tax Authorities (ITA). The ITA has assessed that there is tax payable of \$1.427M with penalties of a further \$0.565M. The Company has fully paid this assessment as at the reporting date.

The Company has lodged an objection with the ITA against this assessment on the basis that it has complied with transfer pricing protocols which have been historically authorised by the ITA and that this revised assessment is inconsistent with these prior rulings. Atlas South Sea Pearl Ltd has sought an amendment of its 2007 tax return through the filing of a Mutual Application Process (MAP) submission with the Australian Tax Office (ATO) to seek relief from paying tax in both jurisdictions under Double Taxation treaties between Australia and Indonesia.

As at the date of this report, there is uncertainty as to the outcome of the objection and this will not be able to be confirmed until the matter is dealt with by the Indonesian and Australian tax authorities. In the event that this 2007 tax assessment is overturned or there is relief provided by the ATO to Atlas South Sea Pearl Ltd in Australia, part or all of the tax expense above could be reversed in the current or future financial periods.

Commentary on the Results

1. Summary of Financial Results

	2010	2009	Change	%
	\$'million	\$'million		
Total Revenue from Continuing operations	9.842	6.908	Up	42%
Profit/(Loss) from continuing operations	2.308	(7.183)	Up	N/A
Net asset value	19.223	16.678	Up	16%
Gearing (net debt : equity)	13.4%	10.6%		

2. Year in Perspective

2010 saw an improvement in financial performance from the prior year as the global financial crisis eased and demand for luxury goods started to improve. There continued to be price pressure from buyers who continued to have a wide selection of product from the low take-up of pearls in 2009. Improved selling capacity from the new in-house marketing team and a continued supply of good quality pearls ensured that the company reported an improved financial result.

The company continues to have a sound asset position with an increase in net assets.

- Revenue**
 Revenue increased by 42% in 2010 to \$9.842M which was due to a higher volume of pearls being sold and a 39% average price increase for all pearls sold. A 37% increase in retail sales to \$0.979M contributed to the improved revenue result.
- Operating expenses**
 Gross profit margins have remained consistent with the previous financial period. Marketing expenses have decreased substantially since the grading and processing of loose pearls was undertaken by the company. Overall, Administration costs have decreased but there has been upward pressure on wages costs due to an increase in staff and inflationary pressures.
- Taxation**
 There remains an outstanding decision from both the Australian and Indonesian taxation authorities with regards to the status of the double tax that the company has been required to pay in relation to the 2007 tax year assessment. The company is continuing to pursue an outcome for this through various unilateral and bilateral processes.
- Inventories**
 Loose pearl stock and jewellery has increased the current inventory balance substantially from the prior year. Loose pearl stocks are being managed to ensure that they are strategically placed with customers to maximise value. The lower cash balance at the end of 2010 compared with 2009 is offset by the higher stock values, some of which was sold in the first two months of 2011. Jewellery stock has increased in value to cater for the expanded number of retail outlets.
- Biological Assets**
 There has been a decrease in the overall value of biological assets (oysters) in 2010 as mature oysters were harvested and converted to pearl inventory in late 2010.

- **Equity**

A share placement was undertaken in the second half of 2010 which raised capital of \$1.1M.

3. Production activities

The company achieved an oyster seeding target of 465,000 in 2010 (2009 - 381,000). All seeding of virgin oysters was undertaken in the N. Bali site which ensured improved quality control. There was an increase in the number of oysters that were re-seeded after harvest during 2010.

Juvenile oyster production results were strong in the 2009/10 hatchery season. Most of the oyster spawnings were carried out using genetically selected breeding pairs. The number of unseeded oysters in stock at the end of 2010 was 46% higher than that of the prior year.

The company purchased an existing pearling operation in the area of Flores/Alor during the second half of 2010. The final purchase price was \$577K which represented the existing stock of seeded and unseeded oysters plus property, plant and equipment. In addition to this, a new water lease was secured around the island of Punggu which is at the West end of Flores. The acquisition and new lease will ensure that there is sufficient land and water facilities to enable the implementation of the expansion of production which is under way. Hatchery, farming and seeding activities have already commenced at the Flores and Alor sites.

4. Marketing

During 2010, the company was able to carry out its own marketing and distribution of loose pearls. A range of large and small wholesale pearl customers purchased a wide range of product from the company. There was a significant decrease in the cost of the processing and distribution for the business as well as a significant shortening of the trade debtor collection time with the majority of customers paying on cash terms. There was an improvement in the grading quality during the year and the presentation of attractive parcels of pearls helped to increase the average selling price from the prior year.

Retail sales improved significantly in 2010. This was due partly to the increased number of tourists that were visiting the island of Bali where all of the company's retail outlets are located. A fifth retail outlet was opened in December 2010. All stores recorded an increase in turnover from the prior year.

5. Share Buyback

The Company did not undertake any share buyback during 2010.

Other Information

Net tangible assets backing per share

	Consolidated	
	2010	2009
	\$	\$
Net assets	19,222,811	16,678,404
Less intangible assets	-	-
Net tangible assets	19,222,811	16,678,404
Number of shares outstanding	136,358,097	125,483,097
Net tangible assets per share	\$0.14	\$0.13

Acquired or Disposed Controlled entities

There were no acquisitions or disposals of controlled entities during the financial year ended 31 December 2010.

Associates and Joint Ventures

There are no associates or joint venture entities that the company is associated or related to.

Compliance Statement

This report has been prepared in accordance with Australian Accounting Standards, which includes AIFRS and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Reporting Standards (IFRS). It is lodged with the ASX under Listing Rule 4.3A.

This report and the financial statements upon which the report is based use the same accounting policies. This report gives a true and fair view of the matters disclosed.

The accounts are in the process of being audited. No qualifications are anticipated from the auditor. The audit report by the auditor will be included in the Atlas South Sea Pearl Limited Annual Report for 31 December 2010.

Atlas South Sea Pearl Ltd
Declaration of Directors

The Directors of the Company declare that:

- (a) the Appendix 4E comprising the statement of comprehensive income, statement of financial position, statement of cashflows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and :
 - (i) give a true and fair view of the financial position as at 31 December 2010 and the performance for the year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) the Chief Executive Officer and Chief Financial Officer have each declared that:
 - (i) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (ii) the Appendix 4E and notes for the financial year comply with the Accounting Standards;
 - (iii) the Appendix 4E and notes for the financial year give a true and fair view; and
 - (iv) a copy of the declaration by the Chief Executive Officer and the Chief Financial Officer has been given to the directors as required by section 295A of the Corporations Act 2001.
- (c) at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors

/s/ S. Birkbeck
Steve Birkbeck
Chairman

28/2/11