



**Arafura Pearls Holdings Ltd ABN 88 092 266 067  
ASX Announcement**

**Results of Investigation into Accounting Irregularities and Board  
and Senior Management Changes**

Perth, 30 March 2011

Arafura Pearls Holdings Ltd ("Arafura") advises that it has completed preliminary investigations into potential irregularities regarding the Consolidated Half Year Report 31 December 2010 released on 28 February 2011.

The current board met on 28 February 2011 to review and approve the Consolidated Half Year Report.

This was the first board meeting for the two non-executive directors, Dr Francis Lung and Mr Jonathan Warrand. The board resolved also to engage Intrasia Capital Pty Limited (Intrasia Capital), a Sydney based corporate adviser, to conduct a strategic review of the business. Mr Warrand is the Managing Director of Intrasia Capital.

During the course of the strategic review Intrasia Capital identified accounting irregularities and raised the matters with management and the board.

The board engaged the company's auditors on 18<sup>th</sup> March 2011 to review the inventory and the company's lawyers were engaged on 25 March 2011 to provide an opinion on the ownership of the inventory. The company was placed into trading halt prior to the market opening on 28 March 2011.

Two irregularities were identified:

**a. Treatment of pearl inventory**

The auditors were engaged to provide an opinion on the impact of potentially an incorrect accounting treatment of the MIS pearl inventory to determine whether the irregularity had a material adverse impact on the inventory as 31 December 2010 in the Consolidated Half Year Report.

Based on investigations performed by the auditors, the Consolidated Half Year Report is required to be restated, with the following adjustments:

- Reduce pearl inventory by eliminating 2006 MIS project inventory incorrectly included in the company's inventory (currently estimated in the range of \$470,000 to \$525,000); and
- Recognise a corresponding reduction in the company's operating result for the six months ended 31 December 2010 reflecting the revised movement in market value of biological assets.

#### **b. Treatment of Rights Issue subscription amounts received**

Management has also made the board aware of the incorrect accounting treatment in the Consolidated Half Year Report of funds received in subscription for Shortfall Shares pursuant to the Non-Renounceable Rights Issue as offered in the Prospectus dated 29 September 2010.

Preliminary investigations show that the cash at bank as at 31 December 2010 was overstated by approximately \$415,000 with a corresponding understatement of receivables.

The company is seeking to address all outstanding accounting issues in order to accurately re-state and re-issue the Consolidated Half Year Report.

#### **Board and Management Changes**

##### *Chairman*

Arafura is also pleased to announce Dr. Francis Lung as Chairman of the board.

As previously noted in the 21 December 2010 announcement of Dr. Lung's appointment to the Board, Dr. Lung is currently the Managing Director of the China Urban Infrastructure Fund, a China State Council approved private equity fund investing in infrastructure projects in China. Dr. Lung is currently also CEO of a software company and is the Deputy Chairman & CEO of Hydrotech International Ltd, an ASX-listed waterproofing technology company. Dr. Lung has a PhD in Engineering (University of Leeds) and a Bachelor of Laws (University of London) and has held senior positions with companies such as Duke Energy, Royal Dutch Shell and Hong Kong Mass Transit Railway.

##### *Chief Financial Officer*

Arafura also announces that a resignation notice has been tendered by the Chief Financial Officer, which has been accepted by the Board. The Chief Financial Officer has agreed to assist the company in investigations and the restatement of 2010 Half Year Review.

### *Chief Operating Officer*

Arafura is pleased to announce the appointment of Mr. David Jackson to the position of Chief Operating Officer. Mr. Jackson was previously General Manager of Arafura's farm operations. He has over twenty years' experience in the Australian south sea pearl industry including major shareholder and Managing Director of Maxima Pearling Co Pty Ltd. Mr. Jackson is the former Chairman of the Pearl Producers Association Inc and has previously served on the Aquaculture Development Council (Ministerial Advisory Committee) and the Pearling Industry Advisory Committee (Ministerial Advisory Committee).

### **Review of Operations**

The board of Arafura is currently conducting a review of the current cost structure of the company. The board will update shareholders on the outcomes after the review is completed.

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Further information visit [www.arafurapearls.com.au](http://www.arafurapearls.com.au) or contact:

Francis Lung  
Chairman  
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### **About Arafura Pearls (ASX:APB)**

Arafura Pearls Holdings Ltd (Arafura) is a listed public company involved in the growing, harvesting and sale of premium Australian South Sea Pearls.

Arafura has operated a state-of-the-art pearl oyster hatchery and farm in Arnhem Land in the Northern Territory (NT) since 1998, and harvested its first pearls in 2001. The pearling industry is controlled through a quota system to support the industry's long term sustainability. Arafura has access to quota of 235,000 pearl oysters, making it the second largest quota holder in Australia and the largest in the NT.