

# ATLAS

PEARLS AND PERFUMES

*Annual Report 2012*

# D I R E C T O R Y

## **DIRECTORS**

Stephen Paul BIRKBECK

Joseph James Uel TAYLOR

B.Sc. (Biology), Ph.D.

Geoffrey Grosvenor NEWMAN

B.Ec (Hons), M.B.A, F.C.P.A, F.A.I.C.D.

Timothy James MARTIN

B.Arts, M.B.A, G.A.I.C.D.

## **COMPANY SECRETARIES**

Ms Susan Patricia HUNTER

B.COM, ACA, F FIN, G.A.I.C.D, A.C.I.S, A.C.S.A.

Appointed 19 December 2012

Stephen Joseph GLEESON

B.BUS, C.P.A.

Appointed 24 April 2012

## **REGISTERED OFFICE**

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## **AUDITORS**

BDO Audit (WA) Pty Ltd : 38 Station Street, Subiaco WA 6008

## **TAX ADVISERS**

BDO Tax (WA) Pty Ltd : 38 Station Street, Subiaco WA 6008

## **BANKERS**

Commonwealth Bank of Australia : 150 St Georges Terrace, Perth WA 6000

## **SHARE REGISTRY**

Computershare (WA) Pty Ltd : Level 2, 45 St George's Terrace, Perth WA 6000

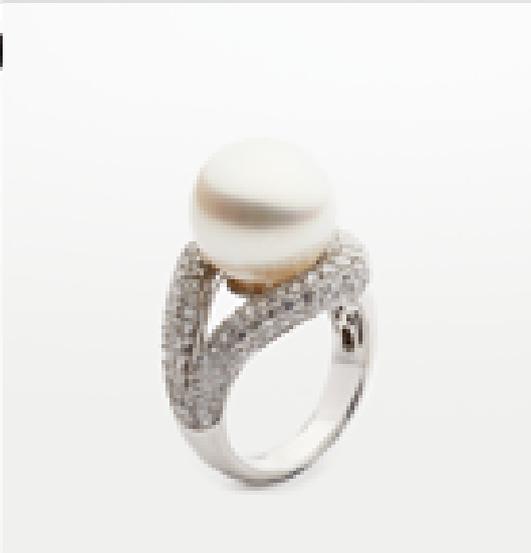
## **HOME EXCHANGE**

Australian Securities Exchange Limited

Exchange Plaza, 2 The Esplanade, Perth WA 6000

ASX Trading Code : ATP

COVER MODEL: NATASHA KERR



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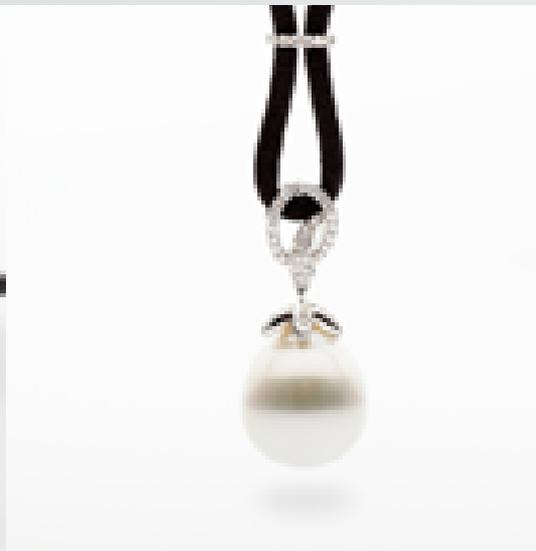
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# Atlas

## P E A R L S & P E R F U M E S

*Global Leader in eco pearling. The past year has seen Atlas Pearls and Perfumes evolve from a world-class aquaculture business into an ethical, sustainable producer of high quality luxury products. Diversification, sustainability and innovation have been key ingredients in a wave of exciting changes that have washed over the company in 2012.*

Through advancements in management structure and vision, the acquisition of EOT, along with the formation of World Senses and a new corporate name, Atlas is now a company that goes beyond pearling. We are pioneers of profitable and sustainable ways of working in harmony with communities and environments around the world to effectively utilise natural resources.

The transition to greater business diversification has been smooth as a result of Atlas's 20 year foundation. The company's well-established strengths in innovation, knowledge and ethics helped us maintain profits in 2012 despite many pearling businesses ceasing to operate.

***Our Pearls:  
Nurtured by us. Loved by you.***

Successfully creating South Sea pearls, the largest living gem, from *Pinctada maxima*, is dependent on sound farming practices. The eco sensitivity of this oyster species requires us to protect the environment.

Our world leading selective breeding programme and pearl oyster husbandry coupled with a strong research culture and co-operative programmes with institutions such as James Cook University promoting the best possible quality whilst maximising production efficiency.

***Beyond the Pearl - Meaningful luxury***

As a socially and environmentally conscious company Atlas gives pearls and perfumes a purpose beyond beauty. We are linking the creation of this luxury item to the wellbeing of the surrounding communities and environment.





# 3000 Hands

Sharing & Sustaining

# C O R P O R A T E   S O C I A L

# Responsibility

*“3000 Hands: Sharing and Sustaining” is the Corporate Social Responsibility position of our new company Atlas Pearls and Perfumes. Atlas runs on passion fuelled by the knowledge that our products are environmentally sustainable and that stakeholders at every level share the benefits.*

In particular the support and involvement of traditional indigenous communities in Indonesia and Australia is critical and without it Atlas could not and would not exist. This philosophy has demanded we maintain excellent relations at every level of community and government ensuring a secure business environment. The Company's position in Indonesia and beyond has never been stronger as our school scholarships, community support and development and cultural exchange programmes continue to grow.

This concept results from exploring the interactions of the people who create our products. Over 3000 hands are involved in the journey of an Atlas pearl from the moment an oyster is born until this living gem is delivered into the hands of the wearer. Consequently, every Atlas pearl has a unique history encapsulating the fragile natural bounty of Indonesia with the ethnic diversity of those farming the pearl and the cultural variety of the people that support

the farms. Our pearls touch so many hearts and are an essential part of the remote communities and this makes Atlas unique. Atlas is not a venture built on a single personality. The company is owned by over 2,000 individuals, employs more than 800 people and directly influences the lives of many thousands across the breadth of the Indonesian archipelago. This relationship is realised through a great number of initiatives covering health, education and training, active community participation, transport and environmental protection.

Perfume has become a new and dynamic part of our business but the philosophy remains the same. Fire Tree, released internationally in 2012, is the embodiment of successfully working with Australia's traditional owners. As with our pearls so too the perfume division links many different people and cultures. Our circle of involvement stretches from Western Australia, Tasmania and Indonesia to the USA and France.

With our partners Nomad Two Worlds, Atlas is collaborating in bringing together the photographic work of Russell James with highly regarded Indonesian painters to create an exciting cross-cultural art series. This project is well timed as Bali hosts the APEC Summit in 2013.

Atlas is a creative endeavour and our story reads much like a romantic adventure. Atlas has enlisted talented Griffith Film School Honours graduate, Arun Ketsirat to work alongside Dr Joseph Taylor in producing a series of web hosted short films that tell stories of the people and work of the group. These stories will help build the Atlas identity and clearly define our unique point of difference in the luxury sector as producers of sustainable, high quality goods.

***As a shareholder you are part of 3000 Hands.***



**3000 Hands**  
Sharing & Sustaining



*"In my professional opinion, pearl farming is the most environmentally-friendly marine resource industry that I've encountered in sixteen years' experience in marine conservation. This is particularly true in the case of Atlas South Sea Pearl, which sets a very high standard for corporate responsibility both with respect to the environment and the welfare of the indigenous communities in proximity to their operations. In our conservation program in Raja Ampat, Papua, Atlas South Sea Pearl has been a trusted and exceedingly helpful conservation partner and has provided invaluable in-kind support to activities ranging from patrols to conservation research to environmental education for local school children."*

*Conservation International's Senior Advisor, Dr Mark Erdmann.*



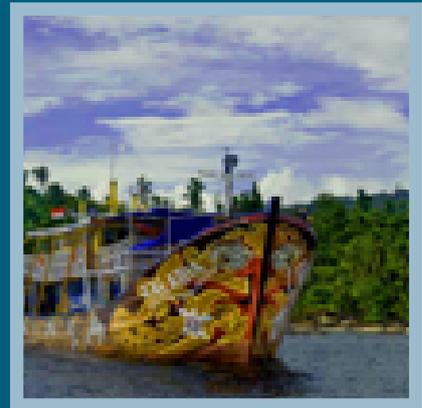
*Pearl farm staff*

2013 will be a time of consolidating this new agenda and defining clearly our place and point of difference as a strongly ethical and sustainable producer of high quality luxury products.



*Local sponsorship*

Atlas consciously seeks to make a practical contribution to the community through the creation of employment in all areas of operations.



*The Kalabia*

We foster community relations to ensure public expectations are aligned with our company objectives.

We take our role as an Environmental Custodian of the Ocean (ECO) seriously to ensure we interact harmoniously both with nature and local communities.

# TECHNOLOGY AND *innovation*

## **Unlocking the treasures of the South Sea**

It takes 4 years to nurture a *Pinctada maxima* oyster to maturity to produce a pearl. Until recently the shell and tissue have been discarded as low-value waste product. Through our research and development we have found ways to unlock the power of the pearl and create exciting new products from the waste biomass including:

- Micronised Pearl Powder
- New Cosmeceutical Actives

## **Pearl Properties and Extracts**

According to ancient texts and records, the pearl has been used in Chinese medicine for centuries as a remedy for a range of conditions and as a health “tonic” to improve wellbeing and vitality. However, the scarcity and expense of natural pearls meant that they were only available to the very wealthy. Today, thanks to technological advances in cultured pearl farming, there is now sufficient bio-mass of the coveted salt-water pearl to make pearl a viable product for a mass market.

Pearl “nacre” (being the pearl itself and the pearlescent inlay within the shell) is made up of layers of a special form of calcium carbonate called “aragonite”.

Between these layers, a rich complex of amino acids, lipids and other “active” ingredients can be found, laid down in repetitive sequences similar to the way in which tree rings are formed.

The translation of a number of Chinese research papers shows that the chemical composition of pearl is identical to our own bone structure and therefore, pearl powder is very easily synthesised by the body. In fact, our pearl powder is already used for surgical procedures to repair bone fractures.

There are many anecdotal claims relating to the benefits of ingesting pearl powder and using it as a topical treatment. We are currently focussing on the unique fragrance of extracts from pearl nacre as well as the benefits of pearl powder and extracts relating to skin health, lustre, vitality, lightening and brightening.

## **Current Products**

Research and development through our joint venture partner World Senses Pty Ltd has to date focused on fragrance extraction and a range of skin care products. These include:

Fine Fragrance – created by a master perfumer, our first fragrance is unique for a number of reasons: it contains the extracted scent of the pearl nacre; the fragrance is water based, not alcohol (ethanol) based thus we have created a fragrance that does not damage jewellery or irritate the skin; it is a pearlescent “creamy white” colour.

Micronised pearl powder and a range of cosmetic, body care, toiletries and contemporary jewellery creations will compliment our fragrances.

In addition, through our recently acquired company, Essential Oils of Tasmania (EOT), we will expand our suite of fragrances by incorporating an exciting range of natural ingredients produced by EOT including:

- Peppermint oil
- Boronia absolute
- Fire Tree absolute (Balga or Grass Tree)
- Fennel oil
- Parsley oil
- Tasmanian native pepper extract
- Lavender
- Blackcurrant



# *tasmania*

We are pleased to announce that Atlas has successfully acquired 25-year old company, Essential Oils of Tasmania Pty Ltd (EOT). EOT has produced a diverse range of pure essential oils and fine plant extracts for the food, flavour and fragrance markets across the world. The acquisition of such a company has given Atlas and the World Senses joint venture an invaluable ability to, like with our pearls, have complete quality control throughout the production and commercialisation process. Having readily available access to a dedicated extraction facility has given us a competitive edge by accelerating the export growth of Atlas perfumes and pearl by-products.

### **Advantageous Location**

Essential Oils of Tasmania is located outside Hobart on the pristine island of Tasmania; Australia's southern island State. Surrounded by the great Southern Ocean and swept by the world's cleanest air, Tasmania is an island renowned for its un-spoilt environment and fine produce.

The warm dry summers and cool wet winters make Tasmania one of the world's best regions to grow a range of essential oil crops. Essential Oils of Tasmania has pioneered the production of a number of globally unique Australian native plant extracts.

### **Technical Capability and Innovation**

Essential Oils of Tasmania is a fully integrated business, with the technical capability to tailor products to individual client requirements.

The extensive experience possessed by the field production team at EOT in developing specialist agronomic systems has led the company to pioneer the commercial production of Boronia and revolutionise harvesting methods for Blackcurrant bud. Our capability allows us to quickly and successfully bring a trial crop into full-scale production.

This high-level of knowledge and experience infiltrates into each area of the company. The technical and processing team has great experience in new product innovation and development, as demonstrated by the unique range of Australian native plant extracts. In-house technical expertise, which, combined with strong links with research organisations, allows us to take a product idea through to fruition.

### **Natural Points of Difference**

#### **Purchase from Source**

All the products are produced in Tasmania under natural conditions that favour the production of quality products.

#### **Quality Assured**

All products are 100% natural, GMO free, irradiation free, Kosher and Halal certified and come with the

full suite of documentation to meet all compliance requirements. Each stage of the production process from paddock to final packaging is closely monitored under comprehensive quality control system (ISO 9001 Quality System Certification).

### **Rare and Unique**

We have pioneered the production of a number of Australian native plant products; including the highly fragrant Boronia flower absolute and our latest product, a spicy extract from the leaves of our native *Tasmania lanceolata* (Tasmanian Native Pepper).

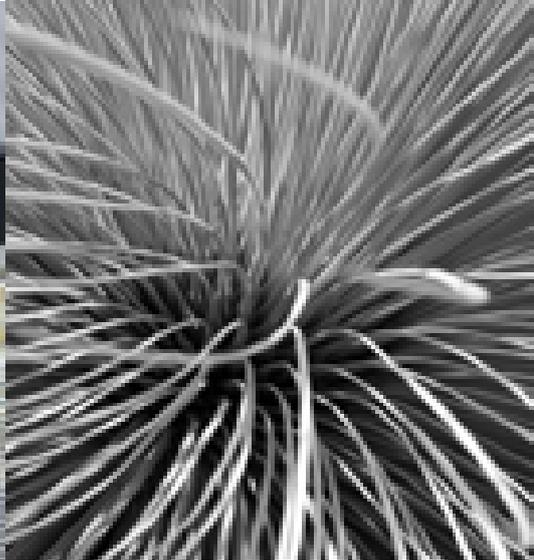
### **Growers**

All crops marketed by Essential Oils of Tasmania are grown in Tasmania by the company or by contract growers. All crops are monitored throughout the season by the Field Production Team to ensure a consistent supply of the highest quality products. Essential Oils of Tasmania has installed and adheres to a comprehensive quality control system to ensure full traceability from the field to the finished product.

### **International Trade**

Essential Oils of Tasmania has a long record of international trade, selling directly to end users, or through a number of major international distributors in the USA, UK, and Europe.

[www.essentialoilsoftasmania.com.au](http://www.essentialoilsoftasmania.com.au)



*Direct from the source to you.*



# P E A R L S P E R F U M E S

## *and beyond*

### **World Senses**

#### Uniting to create meaningful luxury

Atlas Pearls and Perfumes has embarked on a unique Joint Venture, World Senses Pty Ltd with emerging, socially conscious, luxury brand, Nomad Two Worlds. In January 2013, Atlas acquired Essential Oils of Tasmania, a natural ingredient extraction specialist, to diversify its portfolio mix and bring to market a range of innovative fragrance and cosmetic products.

World Senses role is to create products under the company mantra of "meaningful luxury" which encapsulates Nomad Two Worlds' and Atlas' commitment to ensure products create economic opportunities for Indigenous, remote and marginalised communities. These include the people of the Kimberley and other parts of Australia, Indonesia, Papua New Guinea, the Caribbean nation of Haiti and Native American communities.

"We go beyond aesthetic excellence to re-define and give tangible depth to the meaning of luxury." Joyce Lanigan, Co-CEO World Senses.

Founded on a platform of social and environmental responsibility, World Senses collaborates with like-minded organisations and individuals who are dedicated to giving back to the

environments and communities in which we work. Adhering to these social and environmental philosophies empowers World Senses to give purpose to jewellery and cosmetics that goes beyond crafting items of great beauty. Rather we re-create and re-define giving a deeper more tangible meaning to the concept of luxury.

### ***Pearls, Perfumes and Beyond***

Throughout 2013 World Senses will unveil exciting commercial fragrance and cosmetic creations in collaboration with Indigenous communities from around the world.

The first of these creations, Raw Spirit-Fire Tree, was exclusively launched in Sydney and New York. This limited edition fragrance is the first of many projects by World Senses that will foster partnership and economic opportunities for Indigenous and marginalised communities worldwide.

### ***Raw Spirit - Fire Tree***

Born from the fires of Western Australia the first fragrance in the Raw Spirit range is Fire Tree - a limited edition fragrance oil uniquely blended from Australian Sandalwood and the rare oil of the Australian Fire Tree (*Xanthorrhoea preissi*). These smoky, woody base notes intermingle with clean, fresh, almost lilac top notes and a sweet, spicy heart, uniquely adapting to each person who wears it.

Arising from the ashes of seasonal bush fires of Western Australia, the slow-growing Fire Tree is symbolic of rebirth. The tree's clear, honey-coloured, smoky sweet extract has long been prized by its traditional Indigenous custodians who believe it has a unique ability to amplify the wearer's own energy and attract like-minds. This is an extraordinary fragrance, traditionally used by both men and women.

This fragrance has been created using sustainably harvested, wild raw material in collaboration with representatives of the Nyoongar people of Western Australia, the traditional Indigenous custodians of the Fire Tree.

### ***A Glimpse Ahead***

The world's finest pearls are created in the pristine waters of the South Seas – now we have unearthed another treasure-the olfactory essence of the luxurious South Sea pearl.

This refreshing, water-based scent contains a world first, pearl and pearl shell extracts, that provide the base for a perfume; a sweet waft of ocean spray complimented with white floral essences. In 2013 World Senses will launch a range of pearl-friendly perfumes, cosmetics, body care and contemporary jewellery creations.



*Nurtured by us. Loved by you.*

ATLAS

PEARLS AND PERFUMES

*financials*

# C H A I R M A N ' S R E P O R T

Dear Shareholder

Pearl farming has always been a cyclical business; however there are now pleasing signs that the global outlook is improving, and pearl prices have begun to strengthen in the last six months.

2012 was a year of two halves for Atlas and in the first six months we had to manage a very tight liquidity situation concurrent with the low-point of pricing in the world pearl market. This forced us to reduce our cost of goods, improve our quality control and restructure the marketing of our pearls and has fast tracked our status today as **“the world leader in the profitable and sustainable production of high quality 1<sup>st</sup> operation white and silver Pinctada maxima pearls”**.

Atlas also underwent a major transformation in the second half of last year. Our Board, with strong shareholder support, implemented a change in name and an expansion in operational strategy. We acquired a luxury flavour and fragrance exporter in Australia and invested jointly into World Senses with the expressed aim of linking the perfume and pearl luxury sales categories. Our strategy is to generate demand for value added pearls, realise higher margins on the production of pearls and, through product diversity, insulate ourselves from the cyclical nature of the traditional pearling business.

## Vision for Atlas Pearls and Perfumes Ltd

We are building a market driven culture that understands the luxury supply chain and maximises revenue, yield and market share in luxury small-goods (pearls) and perfumes.

We continue to build on market-linked innovations and invest in high quality production with clearly defined specifications, consistent quality and pricing stability that meets or exceeds recognised standards. Through a corporate reputation as a preferred high quality producer of precious luxury goods created in natural and pristine settings protected by our Corporate Social Responsibility platform we will differentiate our company from the competition.

## Summary of Results

	FY12 \$'000	FY11 \$'000	FY10 \$'000	FY09 \$'000
Revenue from continuing operation	12,305	12,350	9,842	6,908
Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA)	1,345	1,555	943	(1,159)
EBITDA margin	10.9%	12.6%	9.6%	(16.8%)
Depreciation & amortisation	(216)	(121)	(54)	(74)
Foreign exchange gains/(losses)	1,137	(919)	(412)	2,043
Revaluation of Agriculture Assets (oysters and pearls)	(3,147)	962	2,719	(7,272)
Other non-operating costs	(130)	(115)	(202)	(954)
Earnings/(loss) before interest and tax (EBIT)	(1,011)	1,362	2,994	(7,416)
EBIT margin	(8.2%)	10.9%	30.4%	(107.4%)

# C H A I R M A N ' S R E P O R T

Summary of Results (Cont.)	FY12 \$'000	FY11 \$'000	FY10 \$'000	FY09 \$'000
Net interest & costs received/(paid)	650	(264)	(192)	(96)
Income tax benefit/(expense)	1,767	(504)	(412)	(2,043)
Net profit after tax (NPAT)	1,406	594	2,387	(7,182)
Basic earnings per share (cents)	0.68	0.43	1.91	(6.25)
Assets	33,602	30,831	26,593	24,400
Debt (Current & Non-current)	4,936	5,720	3,596	4,272
Shareholder funds	24,217	20,284	19,307	16,310
Debt/shareholder funds (%)	20%	28%	19%	26%
Number of shares on issue (million)	237.14	142.86	136.36	125.48

## Fiscal Results in 2012

1. Closed the year with \$2.8M in liquidity (cash and headroom in bank facility access).
2. EBITDA of \$1.35 million despite a poor first quarter in 2012.
3. Increased loose pearl prices in a flat global market.
4. Increased our trading gross margins from a budget of 43% to an actual margin of 52%.
5. Reduced our 2011 cash overheads by 9%.

## Projected Earnings

Projected earnings are based on intelligent marketing rather than an unrealistic expectation of pearl prices returning to pre 2008 levels. We expect to generate significant growth in sales through the introduction of our perfume division and the growth of our consumer brand sales from our retail shops and new wholesale initiatives such as Showcase in Australia. In 2013/14, we intend to change to the standard Australian accounting year.

## Pearl Division Marketing

Over four years we have increased the size of our pearl farming ventures. We now have adequate scale in our pearling operations and will focus on consolidation and quality whilst continuing to incrementally grow the number of pearls harvested.

Pearls will also be value added by combining them with our other luxury category, perfume. High-grade pearls will be auctioned and sold by private treaty to upper levels of the supply chain and pearl jewellery will be sold to retailers.

Approximately 30% of our pearls achieve lower prices as a result of shape and various minor imperfections. There are examples of pearl categories selling for under our cost of production that can be enhanced or complimented as a finished piece of jewellery, consequently converting these pearls into substantially higher value items.

We will maximise our revenues and, combined with low cost of production, improve our position as a sustainable business that will self-fund organic growth, and acquisitions. Atlas aims to reinstate dividends for shareholders that are funded by profits in the luxury market sector.

# C H A I R M A N ' S R E P O R T

## Perfume Division

Technical innovation allows us to link perfume into the pearl retail sector and is the cornerstone of our corporate strategy: generating demand for value added pearls, realising higher margins and creating consumer demand for perfumes through the global retail jewellery sector.

Acquiring Essential Oils of Tasmania ("EOT") was explained in our 2012 prospectus. The shareholder support for this change in direction was overwhelming and appreciated. The geographic and product diversity of the new company gives us better product diversification and growth potential into the future.

## Investing in Increased Perfume Production

Atlas anticipates increasing the scale of perfume production in Tasmania to meet our strategic marketing investments. This will consequently provide a new stimulus for the Australian Island State.

In 2013, EOT will produce around 12,000 kg's of Boronia flower that will yield around 40 Kg of Boronia perfume concentrate selling for an average price of \$9,000 per Kg. When we acquired EOT it had invested funds to build new farms projected to yield increasing harvests of 30,000 Kg of flowers and 100 Kg of perfume concentrate over 4 years. Atlas wants to double this objective by expanding Boronia production to the mainland using a transition from sustainable wild harvest to plantations over 5 years.

Atlas is also pursuing further strategic growth initiatives for other flavours and fragrances produced by EOT.

## Value Added Sales

The sales growth in our branded products has increased steadily from \$750K to \$1.47M over the last two years. I am excited to announce that in the 2<sup>nd</sup> quarter of 2013, the first perfumes using our propriety Pearl'fume technologies will be manufactured in Paris, New York and Australia for release in the second half of 2013. This will allow us to market a greater range of luxury goods, providing synergies for our sales and marketing team. We are targeting strong wholesale growth in Australia, the USA, the Middle East and Europe.

## Value Added Sales From Wholesale, Retail Sales and Direct Marketing Calendar Year

	2010 \$	2011 \$	2012 \$
Wholesale	Nil	Nil	<b>\$0.45M</b>
Retail	\$0.75M	\$1.21M	<b>\$1.47M</b>
Data Base	Nil	Nil	<b>Nil</b>
Total Value Added	\$0.75M	\$1.21M	<b>\$1.92M</b>

Value adding is a priority as the growing revenues demonstrate. In simple terms we aim to create demand for value added pearls and perfumes that can be sold into uncontested niche luxury-market segments: perfumes to jewellers and pearls to perfumeries.

# C H A I R M A N ' S   R E P O R T

## **World Senses Pty Ltd**

In 2012 World Senses Pty Ltd was incorporated, holding its first Board meeting in February 2013. Although we expect exports and revenues from World Senses to commence in the second half of 2013 no budget allocation for revenue has been made by Atlas and a further \$250K will be invested during 2013.

## **Conclusion**

2012 was a sea change for the Atlas group. The evolution of our management structure and vision, coupled with the acquisition of EOT, the formation of World Senses and a new corporate name have reinvigorated the business. The Company has maintained profitability despite many pearling businesses ceasing to operate. 2013 will be a time of consolidating this new agenda and defining clearly our place and point of difference as a strongly ethical and sustainable producer of high quality luxury products.

Our highest priority this time last year was to preserve cash and liquidity. This was achieved: we closed 2012 with approximately \$2.1M cash and \$730K headroom on our bank facilities.

The dividend policy will be announced in July this year when we revisit our 2013 liquidity strategy. Although we anticipate a period of cash flow surplus, I caveat any dividend allocations against the need to bed down major CAPEX investments for 2013/14 and review our pearl and perfume harvests to ensure the group is on target to meet our revenue and profit estimates for the year.

We have managed to strengthen our balance sheet, dramatically improve liquidity, build a globally competitive advantage for our pearls, and create product differentiation by linking pearls and perfumes. The last four years has been a hard fiscal period and it is pleasing that we have generated significant growth and now anticipate a strong future. We have the right mix of competitive advantage and product differentiation. The crisis has only made us stronger and we enter the next few years with a solid balance sheet and a highly productive executive team.

We acknowledge the critical role that shareholders have played in supporting us through this rough year and your trust in our management team. I personally would also like to acknowledge my Board for their timely advice and decisions. The past year with Atlas has been the most significant corporate turnaround in terms of speed and scale that I have ever been associated with. I take this opportunity to thank our key suppliers, the shareholders, management and staff for their continued commitment towards making Atlas a successful world-class business. Our team is at your disposal to answer any questions that may arise out of this document.



Stephen Birkbeck, Chairman

26<sup>th</sup> March 2013

# D I R E C T O R ' S   R E P O R T

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) consisting of Atlas Pearls and Perfumes Ltd (formerly Atlas South Sea Pearl Limited) and the entities it controlled at the end of, or during, the year ended 31 December 2012.

## 1. DIRECTORS

The following persons were directors of Atlas Pearls and Perfumes Ltd during all or part of the financial year and up to the date of this report except where stated:

### **STEPHEN PAUL BIRKBECK (Age – 52)**

EXECUTIVE CHAIRMAN OF THE BOARD, CHIEF EXECUTIVE OFFICER (Remuneration Committee)

Mr Birkbeck was the founder and former CEO of Mt Romance, an Australian company that has become one of the largest producers of sandalwood oil in the world. Mr Birkbeck has extensive marketing expertise, especially in the luxury goods markets. He has been presented with a number of excellence awards in relation to the success of Mt Romance and brings this extensive business development skill to the Board.

Appointed Chief Executive Officer 16 January 2012

Appointed Director on 15 April 2005

Appointed Chairman of the board on 21 December 2009

(Last re-elected as a director – 31 May 2011)

Directorships of other listed companies held in the last three years: Nil

### **JOSEPH JAMES UEL TAYLOR, B.Sc. (Biology), Ph.D. (Age – 46)**

INDEPENDENT NON EXECUTIVE DIRECTOR, (Audit Committee, Remuneration Committee)

Dr Taylor is a marine biologist and aquaculturist whose PhD research specialised in the husbandry of *Pinctada maxima* pearl oysters. Since 1989, Dr Taylor has been involved in the management of aquaculture operations, mainly associated with South Sea pearl farming. He has acquired extensive knowledge about the biology of pearl oysters and has presented many research papers on this subject. Dr Taylor commenced employment with the Company in 1996 as the Project Manager and has overseen the development of the business to its current level of production.

Appointed Director on 13 September 2000

Managing Director from 31 August 2001 to 1 June 2009

(Last re-elected as a director – 31 May 2010)

Directorships of other listed companies held in the last three years: Nil

# D I R E C T O R ' S   R E P O R T

## **GEOFFREY GROSVENOR NEWMAN, B.Ec (Hons), M.B.A, F.C.P.A , F.A.I.C.D. (Age – 61)**

INDEPENDENT NON EXECUTIVE DIRECTOR (Chair of Audit Committee, Remuneration Committee)

Mr Newman has over 25 years experience in finance, marketing and general management roles in organisations either directly involved in the resources sector or providing services and products to businesses in that sector. In 1995, after managing Bunnings Pulpwood operations for a number of years, he joined Coogee Chemicals Pty Ltd as Commercial Manager and then was appointed to the Board as Finance Director in the following year. Until August 2005 he was Finance Director/CFO and Company Secretary of both Coogee Chemicals and its oil and gas subsidiary Coogee Resources Ltd before he retired from the Coogee group of companies at the end of June 2006.

Director since 15 October 2010

(Last re-elected as a director – 31 May 2011)

Directorships of other listed companies held in the last three years:

Mount Magnet South NL - appointed 31 May 2006, resigned 9 September 2010

Neptune Marine Services Ltd – appointed 16 October 2008, resigned 30 September 2011

## **TIMOTHY JAMES MARTIN, B.Arts, M.B.A, G.A.I.C.D. (Age – 40)**

NON EXECUTIVE DIRECTOR

Mr Martin has over 15 years of experience in the chemical, manufacturing and property sectors in Australia and south-east Asia. Mr Martin is Managing Director of Coogee Chemicals, a privately owned chemical manufacturing and shore side Terminal and Distribution company, with operations throughout Australia and in Asia.

He has experience in the resource sector as a Non-Executive Director of related company Coogee Resources, where he was also a member of their Risk and Audit Committee until the company was sold to PTTEP (the National Oil Company of Thailand).

Prior to this Tim worked in the wholesale food manufacturing and distribution business in senior management positions, primarily servicing retail supermarket chains in Australia.

He is also Director Principal of a private company specialising in commercial property development and leasing, with current projects in Port Hedland, Rockingham, and south Western Australia. He is also a board member of the Kwinana Industries Council representing heavy industry to government and other stakeholders as well as being a member of the Plastics and Chemicals Industry Association of Australia (PACIA) strategic issues advisory council.

Appointed Director on 4 February 2013.

Directorships of other listed companies held in the last three years: Nil

# D I R E C T O R ' S   R E P O R T

## 2. COMPANY SECRETARY

The role of Company Secretary at the end of the financial year was shared by Mr Stephen Gleeson and Ms Susan Hunter.

### STEPHEN JOSEPH GLEESON, B.BUS, C.P.A.

Prior to joining Atlas in 2012, Mr Gleeson held the position of CFO/Company Secretary of statewide recruitment Company Skill Hire from 2008 to 2012. He also has international experience as CFO of Peter Lik USA and has previously acted as Company Secretary for the ASX listed company Golden Valley Mines NL. He has 25 years' experience in corporate restructuring and business re-engineering, and is a member of CPA Australia.

Appointed 24 April 2012.

### SUSAN PATRICIA HUNTER, BCom, ACA, F Fin, G.A.I.C.D, A.C.I.S, A.C.S.A.

Ms Hunter has over 19 years experience in the corporate finance industry. She is founder and Managing Director of consulting firm Hunter Corporate which specialises in the provision of corporate governance and company secretarial advice to ASX listed companies and has held senior executive roles at Ernst & Young and PricewaterhouseCoopers in their Corporate Finance divisions and at Bankwest in their Strategy and Ventures division. She holds a Bachelor of Commerce, is a Member of the Australian Institute of Chartered Accountants, a Fellow of the Financial Services Institute of Australasia, a Graduate Member of the Australian Institute of Company Directors and a Member of the Institute of Chartered Secretaries and Administrators and Chartered Secretaries Australia.

Appointed 19 December 2012.

Mrs Cecilia Tyndall was Company Secretary since 15 November 2010. Resigned 2 February 2012.

Mr Simon C B Adams was Company Secretary appointed 2 February 2012. Resigned 24 April 2012.

## 3. DIRECTORS' MEETINGS

The attendance at meetings of the Company's Directors including meetings of committees of Directors is shown below:

Director	Period	Directors' Meetings		Audit Committee Meetings		Remuneration Committee	
		Held	Attended	Held	Attended	Held	Attended
S.P. Birkbeck	01/01/12 - 31/12/12	8	8	2	2	1	1
G. Newman	01/01/12 - 31/12/12	8	8	2	2	1	1
J.J.U. Taylor	01/01/12 - 31/12/12	8	8	2	1	1	1
S.C.B. Adams	01/01/12 - 31/12/12	8	1	2	1	1	0
T. Martin *	01/01/12 - 31/12/12	8	1	2	0	1	0
S. Gleeson	01/01/12 - 31/12/12	8	8	2	1	1	0
S. Hunter	01/01/12 - 31/12/12	8	2	2	0	1	0

\* T. Martin was appointed as Director on 4 February 2013 subsequent to year end. T Martin attended these meetings as a invitee and not in a Directors capacity.

# D I R E C T O R ' S R E P O R T

## 4. REMUNERATION REPORT (AUDITED)

The directors are please to present your Company's 2012 remuneration report which sets out remuneration information for Atlas Pearls and Perfumes Ltd's non-executive directors, executive directors and other key management personnel.

Name	Position
<i>Non-executive and executive directors – see pages 5 to 7 above</i>	
Other key management personnel	
S Gleeson	Chief Financial Officer
JS Jorgensen	Chief Operations Officer PT Cendana Indopearl
C Triefus	Retail Production Manager PT Cendana Indopearl

### *Changes since the end of the reporting period*

The following changes have been made to the remuneration of the following key management personnel after 31 December 2012;

#### **Chief Operations Officer PT Cendana Indopearl – JS Jorgensen**

Mr JS Jorgensen's contract was renegotiated on 21 February 2013. The new contract is for a fixed period and terminates on 31 December 2013. The remuneration package includes;

- Base Remuneration - AUD \$165,000 per annum
- Commission on Pearl Meat sales – 15% of sales excluding VAT or GST
- Commission on Mother of Pearl Sales – 5% for annual sales in excess of \$300,000 excluding VAT or GST

Additional Entitlements;

- Relocation costs to the maximum of \$2,000 at the end of the contract
- Cost of all medical expenses including insurance and emergency evacuation, associated with working in Indonesia for the individual and their family
- A maximum of \$8,720 for school fees
- 30 days annual leave

#### **Retail Production Manager – C Triefus**

Mr C Triefus's contract was renegotiated on 1 January 2013. The new contract is for a fixed period and terminates on 31 December 2013. The remuneration package includes;

- Base Remuneration - \$85,600 per annum

# D I R E C T O R ' S   R E P O R T

## 4. REMUNERATION REPORT (AUDITED) (CONT.)

Changes since the end of the reporting period (Cont.)

Additional Entitlements;

- Accommodation allowance of AUD \$18,000
- Cost of all medical expenses including insurance and emergency evacuation, associated with working in Indonesia for the individual and their family
- 30 days annual leave

### **Non-Executive Director** – T Martin

Mr T Martin was appointed as Non-Executive Director on 4 February 2013. The base fee for Non Executive Directors is \$30,000 per annum.

### 4.1 ROLE OF THE REMUNERATION COMMITTEE

The remuneration committee is a committee on the board. It is primarily responsible for making recommendations to the board on:

- Non-executive director fees
- Remuneration levels of executive directors and other key management personnel
- The over-arching executive remuneration framework and operation of the incentive plan, and

Key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interest of the Company.

#### 4.1.1 NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees are reviewed annually by the Board. Consideration is given to the remuneration of comparable companies when setting fee levels.

The Non Executive Directors' aggregate annual remuneration may not exceed \$350,000 which is periodically recommended for approval by shareholders. This limit was approved by shareholders at the Annual General Meeting on 30<sup>th</sup> May 2007. In the year ending 2012, the total non-executive directors' fees including retirement benefit contributions were \$131,176.

The following fees have applied:

- Base fees for Non-Executive Directors - \$30,000 per annum.
- Additional fees of \$5,000 per annum for the Chairman of the Audit Committee.
- Chairman's package is \$175,000 per annum plus superannuation this includes the Chairman's remuneration for his role as Chief Executive Officer.
- The Technical Director receives an additional \$20,000 per annum for advice on pearl production matters.

# D I R E C T O R ' S R E P O R T

## 4. REMUNERATION REPORT (AUDITED) (CONT.)

### 4.1.2 EXECUTIVE REMUNERATION POLICY AND FRAMEWORK

In determining executive remuneration, the board aims to ensure that remuneration practices are:

- Competitive and reasonable, enabling the company to attract and retain key talent
- Aligned to the company's strategic and business objectives and the creation of shareholder value
- Transparent, and Acceptable to shareholders

The executive remuneration framework has three components:

- Base pay and benefits, including superannuation
- Short-term performance incentives; and,
- Long-term incentives through participation in the Atlas South Sea Pearl Limited Employee Share Plan.

Employment contracts are in place between the Company (or its subsidiaries) and all key management personnel. Under these contracts, key management personnel are paid a base salary (which may be provided in the form of cash or non-financial benefits) in accordance with their skills and experience as well as entitlements including superannuation and accrued annual leave and long service leave in the event of termination.

Executives salaries are reviewed annually and are adjusted to take into consideration the individuals' responsibilities and skills compared to others within the Company and the industry. There are no guaranteed base pay increases in any executives contracts.

There were no short or medium term cash incentives provided to any executives of the company during the last financial year except where noted in section 4.2 of this report. Short or medium cash incentives are incorporated into some executives salary packages at the time of this report. The framework provides a mix of fixed and variable pay with short and medium term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of 'at risk' rewards.

An Employee Share Plan (ESP) provides some senior executives with incentive over and above their base salary (refer 4.5 below). The allocation of shares under the Employee Share Plan (ESP) is not subject to performance conditions of the Company. The reasons for establishing the ESP were:

- To align the interests of senior management with shareholders. The ESP provides employees with incentive to strive for long term profitability which is in line with shareholder objectives; and
- To provide an incentive for employees to extend their employment terms with the company. Pearl farming is a long term business and the experience of long serving senior employees is an important factor in the long term success of the Company.

#### ***Use of remuneration consultants***

The Company did not engage any remuneration consultants during the year end 31 December 2012.

# D I R E C T O R ' S R E P O R T

## 4. REMUNERATION REPORT (AUDITED) (CONT.)

### **Voting and comments made that the Company's 2011 Annual General Meeting.**

Atlas Pearls and Perfumes Ltd received more than 90% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration.

### **Relationship between Key Management Personnel Remuneration and Performance.**

Each Key Management Personnel is remunerated on an individual basis. Some Key Management Personnel are entitled to bonuses based on a percentage of EBITDA.

### 4.2 Details of remuneration

The following tables show details of the remuneration received by the directors and the key management personnel of the Group for the current and previous financial year.

Name		Short term benefits			Total cash salary, fees and short term benefits	Post-Employment Benefits	Long term benefits	Share based compensation	Total
		Cash salary & fees	Short term incentive cash bonus	Non-cash monetary benefit		Super-annuation Benefit	Long Service Leave		
		\$	\$	\$	\$	\$	\$	\$	
<b>Directors (Non-Executive)</b>									
G. Newman <sup>7</sup>	2012	37,500		-	37,500	12,000	-	-	49,500
	2011	37,500	-	-	37,500	12,000	-	-	49,500
J.J.U. Taylor <sup>1</sup>	2012	72,077	-	1,627	73,704	7,972	-	-	81,676
	2011	79,900	-	-	79,900	15,600	-	-	95,500
T. Martin <sup>8</sup>	2012	-	-	-	-	-	-	-	-
	2011	-	-	-	-	-	-	-	-
<b>Total Non-Executive Directors</b>									
<b>(Executive)</b>									
S.P. Birkbeck <sup>1,3,12</sup>	2012	175,000	-	10,424	185,424	15,337	-	-	200,761
	2011	169,750	-	-	169,750	7,200	-	-	176,950
S.C.B. Adams <sup>12</sup>	2012	72,502	-	-	72,502	8,469	21,595	-	102,566
	2011	183,486	16,312	-	199,798	17,414	10,436	-	227,648
<b>Grand Total</b>	<b>2012</b>	<b>357,079</b>	<b>-</b>	<b>12,051</b>	<b>369,130</b>	<b>43,778</b>	<b>21,595</b>	<b>-</b>	<b>434,503</b>
<b>Grand Total</b>	<b>2011</b>	<b>470,636</b>	<b>16,312</b>	<b>-</b>	<b>486,948</b>	<b>52,214</b>	<b>10,436</b>	<b>-</b>	<b>549,598</b>

# D I R E C T O R ' S   R E P O R T

## 4. RUMUNERATION REPORT (AUDITED)

### 4.2 Details of remuneration (Cont.)

Name		Cash salary & fees	Short term benefits		Total cash salary, fees and short term benefits	Post-Employment Benefits	Long term benefits	Share based compensation	Total
			Short term incentive cash bonus	Non-cash monetary benefit		Super-annuation Benefit	Long Service Leave		
		\$	\$	\$	\$	\$	\$	\$	\$
S Gleeson <sup>5,6</sup>	2012	183,074	36,902	6,735	226,711	16,477	-	-	243,188
	2011	-	-	-	-	-	-	-	-
JS Jorgensen	2012	225,000	-	36,235	261,235	14,014	-	-	275,249
	2011	250,000	6,525	26,902	283,427	13,500	-	-	296,927
C Triefus <sup>10,12</sup>	2012	107,000	-	29,685	136,685	-	-	-	136,685
	2011	107,000	22,751	18,558	148,309	-	-	-	148,309
J. Folan <sup>5</sup>	2012	33,538	-	-	33,538	3,018	-	-	36,556
	2011	105,986	-	9,539	115,525	-	-	-	115,525
<b>Grand Total</b>	<b>2012</b>	<b>548,612</b>	<b>36,902</b>	<b>72,655</b>	<b>658,169</b>	<b>33,509</b>	-	-	<b>691,678</b>
<b>Grand Total</b>	<b>2011</b>	<b>462,986</b>	<b>29,276</b>	<b>54,999</b>	<b>547,261</b>	<b>13,500</b>	-	-	<b>560,761</b>

Notes:

- Dr J Taylor and Mr S Birkbeck are Directors of the Company's Malaysian subsidiary Aspirasi Satria Sdn Bhd. Mr S Adams resigned as Director on 5 April 2012.
- Mr S Adams was one of the key management personnel of the Group with the title of Managing Director. Mr S Adams was appointed Managing Director as at 1 September 2010 and resigned 16 January 2012.
- Mr S Birkbeck is a key management personnel of the Group with the title of Chief Executive Officer. Mr S Birkbeck was appointed Chief Executive Officer as at 16 January 2012.
- Mr J Jorgensen is a key management personnel of the Group and was appointed to the position of Chief Operating Officer (COO) in September 2010.
- It is the opinion of the Board that the only officers of the Group who meet the definition of key management personnel as set out by the Corporations Act 2001 or the Australian Accounting Standards are the Chief Operating Officer and Chief Financial Officer.
- J Folan was the Chief Financial Officer. J. Folan commenced employment on 31 May 2011 and resigned 1 February 2012. S Gleeson was appointed Chief Financial Officer on the 1 February 2012.
- G Newman appointed 15 October 2010.
- T Martin appointed 4 February 2013.
- Mr J Jorgensen is the Chief Operations Officer of the Company's Indonesian subsidiary, PT. Cendana Indopearls.
- Mr C Triefus is the Retail Production Manager.
- In 2011, S. Adams and J. Jorgensen had their remuneration linked to the performance of the Company based on growth in normalized EBITDA. In 2012 Mr S Adams and Mr T Jones no longer met the Company's definition of Key Management Personnel. No bonuses/short term incentives were paid to the KMPs as their milestones were not achieved during the year, except for Stephen Gleeson as his bonus based on achieving various milestones relating to tax compliance and 2% of EBITDA paid twice yearly.
- A number of key management took part in the 2012 salary sacrifice scheme. \$50,000 of Stephen Birkbeck's salary has been accrued for under the ESSP scheme and will be transferred to him in shares in 2013. \$25,000 of Jan Jorgensen's salary has been accrued for under the ESSP scheme and will be transferred to him in shares in 2013. \$17,000 of Colin Triefus' salary has been accrued for under the ESSP scheme and will be transferred to him in shares in 2013.

# D I R E C T O R ' S   R E P O R T

## 4.3 Service Agreements

On appointment to the board, all non-executive directors enter into a service agreement with the Company.

Remuneration and other terms of employment for the Chief Executive Office, Chief Financial Officer, Chief Operations Officer and other key management personnel are also formalised in service agreements.

Details of key management personnel contracts are set out below:

### 4.3.1 Mr Stephen Birkbeck (Executive Chairman - CEO) (Appointed as CEO from 16 January 2012)

- Mr S Birkbeck was appointed as CEO commencing from 16 January 2012.
- Base salary for the 2012 financial year of \$175,000 plus 9% superannuation, reviewed annually.

### 4.3.2 Mr Simon Adams (Company Secretary) (Resigned as Company Secretary from 24 April 2012)

- Base salary inclusive of superannuation for the 2012 financial year of \$130,000, reviewed annually.
- Bonus based on achieving various milestones relating to capital raising, tax compliance and retail revenue.

### 4.3.3 Mr Jan Jorgensen (Chief Operating Officer)

- Base salary for the 2012 financial year of \$225,000 plus 9% superannuation, reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.
- Bonus based on 1% of increase in EBITDA over next year from base of 2011 financial year.
- Base salary for the 2013 financial year as specified in the finalised service agreement is \$165,000. Bonus based on 15% of Pearl Meat sales and 5% of Mother of Pearl Sales for annual sales in excess of \$300,000 excluding VAT or GST.

### 4.3.4 Mr Colin Triefus (Retail Production Manager)

- Employed under a fixed term contract which was renewed 1 January 2013 and due to expire on 31 December 2013.
- Base salary for the 2012 financial year of \$107,000, reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.
- Bonus incentive earned as 4% on the growth of revenue from retail jewellery sales in Indonesia from year to year.
- Base salary for the 2013 financial year is \$85,600, reviewing annually and also subject to various non-financial allowances relating to living in Indonesia.
- The Company may terminate the executive's employment agreement by providing 2 months written notice or providing payment in lieu of the notice period.
- Not entitled to any special termination payments under these contracts.

### 4.3.5 Mr Stephen Gleeson (Chief Financial Officer)

- Base salary for the 2012 financial year of \$225,000 inclusive of 9% superannuation, reviewed annually.
- Bonus based on achieving various milestones relating to tax compliance and 2% of EBITDA paid twice yearly.

# D I R E C T O R ' S R E P O R T

## **4.3.6 Other executives (standard contracts)**

- Contract terminates on retirement.
- The Company may terminate the executive's employment agreement by providing 2 months written notice or providing payment in lieu of the notice period.
- Not entitled to any special termination payments under these contracts.

## **4.4 Additional Information not audited as part of remuneration report**

### **4.4.1 Loans to Directors and Executives**

Details relating to the loans to directors and key management personnel including amounts, interest rates and repayment terms are set out in note 25 to the financial statements.

### **4.4.2 Options**

There were no options issued to directors or key management personnel in the financial year, or the previous financial year.

## **4.5 Share based payments compensation**

In 2006 and 2007 ordinary shares were issued to key management personnel of Atlas Pearls and Perfumes Ltd under an Employee Share Plan (ESP) that was approved by shareholders at the company's annual general meeting in May 2006. These shares have been issued to employees under the following terms:

- 4.5.1** In 2007 shares were issued at a price of 40 cents each , 900,000 were issued on 17th April and 200,000 were issued on 10th May 2007 when the market price was 41 cents and 48 cents per share respectively. In 2006, 2,150,000 shares were issued at a price of 29 cents each on 30th May when the market price was 31 cents per share;
- 4.5.2** Entitlement to 50% of the beneficial interest on the shares vested to employees after they have completed two (2) years of employment with the company from the date of issue of the shares, and entitlement to the remaining 50% of the beneficial interest in the shares vested to employees after they have completed three (3) years of employment with the company from the date of issue of the shares;
- 4.5.3** Shares issued under the ESP have been paid for by employees who have been provided with an interest free, non-recourse loan by the Company. This loan is to be repaid from the proceeds of dividends paid in relation to these shares.

# D I R E C T O R ' S   R E P O R T

**4.5.4** The details relating to the allocation of shares to directors and key management personnel under the ESP are as follows:

Name	Date of Issue	No. of Shares Issued <sup>(3)</sup>	Shares Vested to end of 2010	Shares Forfeited in the year	Financial Year in which shares vested	Nature of shares	Minimum value of grant yet to be vested <sup>(1)</sup>	Maximum value of grant yet to be vested <sup>(2)</sup>
Joseph Taylor	10/5/07	200,000	100%	0%	2009 – 50% 2010 – 50%	Ordinary Shares	\$-	\$-
	<b>30/5/06</b>	<b>1,000,000</b>	<b>100%</b>	<b>0%</b>	<b>2008 – 50%</b> <b>2009 – 50%</b>	<b>Ordinary Shares</b>	<b>\$-</b>	<b>\$-</b>
Simon Adams	17/4/07	100,000	100%	0%	2009 – 50% 2010 – 50%	Ordinary Shares	\$-	\$-
	<b>30/5/06</b>	<b>400,000</b>	<b>100%</b>	<b>0%</b>	<b>2008 – 50%</b> <b>2009 – 50%</b>	<b>Ordinary Shares</b>	<b>\$-</b>	<b>\$-</b>

**Notes –**

1. The minimum benefit is based on the fact that the vesting criteria for the shares on issue have not yet been met.
2. The maximum value is based on the value that is calculated at the time that the shares were issued.
3. The above named individuals are only entitled to these shares when the recourse loan is repaid. As at 31 December 2012, none of these loans have been repaid. Hence, these shares remain as treasury shares in the employee share trust.

**4.5.5** In 2012 key management personnel were invited to participate in the Atlas South Sea Pearl Limited Non-Executive Director Fee Sacrifice Share Plan and Employee Salary Sacrifice Share Plan that was approved by shareholders at the Company's Annual General Meeting on 30 May 2012. These shares have been issued to employees under the following terms:

This existing Employee Share Loan Plan was replaced by a new Employee Salary Sacrifice Share Plan and Non-Executive Director Plan at the AGM on the 30 May 2012.

**4.5.6 The Atlas Employee Salary Sacrifice Share Plan**

On 30 May 2012, the Atlas Employee Salary Sacrifice Share Plan was established. On the 4th of September 2012 6,064,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share.

Under the Salary Sacrifice Plan, the Company agrees to issue Shares to Eligible Employees, in lieu of the amount of remuneration that each Eligible Employee has agreed to sacrifice from their monthly remuneration.

To participate in the Salary Sacrifice Plan, Eligible Employees are required to salary sacrifice a minimum of 10% of their annual base salary into Shares. There is no maximum percentage or value cap to the amount that each Eligible Employee can sacrifice.

The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per Share is 5 cents.

The Employee Share Plan is open to Eligible Participants being any Eligible Employee; or conditional upon the company obtaining any necessary ASIC relief to extend the operation of ASIC Class Order 03/184 (or similar class order) to them: any

# D I R E C T O R ' S   R E P O R T

## **4.5.6 The Atlas Employee Salary Sacrifice Share Plan (Cont.)**

Eligible Contractor; or Eligible Casual Employee, who is declared by the Board to be an Eligible Participant for the purposes of the Plan.

There are no vesting conditions attached to the plan. Once an Employee has salary sacrificed salary equivalent to the number of shares taken up under the plan the shares are issued to the Employee.

An Eligible Employee means: a full time or part time employee (including an executive director) of a Group Company. An Eligible Contractor means: an individual that has: performed work for a Group Company, for more than 12 months; and received 80% of more of their income in the preceding year from a Group Company; or a company where each of the following are satisfied in relation to the company: Throughout the previous 12 months the company has had a contract in place with a Group Company, for the provision of the services of an individual (contracting individual) to a Group Company;

- The contracting individual has performed work for a Group Company, for more than 12 months;
- The contracting individual has been the only member for the company for more than 12 months; and
- More than 80% of the aggregate income of the company and the contracting individual from all sources (other than from each other) in the preceding 12 months was received from a Group Company.

The Board may determine the terms and conditions of the Salary Sacrifice arrangement for which Shares are offered in lieu of that Remuneration.

The number of Shares to be issued, transferred or allocated to the Trustee to be held on behalf of a Participant will be the dollar amount of the Salary Sacrifice divided by the issue price per Share outlined in the Invitation. In the case of fractional entitlements, the number of Shares to be issue, transferred or allocated to the Trustee to be held on behalf of a Participant will be rounded up to the nearest whole Share, unless otherwise determined by the Board from time to time.

Shares to be acquired by Eligible Participants under the Salary Sacrifice plan are held in the trust until such time that the Shares are fully paid for. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements. As at 31 December 2012 none of the 5,814,000 shares issues to the Atlas South Sea Pearl Limited Employee Share Trust had been issued to Eligible Participants. The shares rank equally with other fully paid ordinary shares. Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.16.

# D I R E C T O R ' S   R E P O R T

**4.5.7** The details relating to the allocation of shares to directors and key management personnel under the Employee Salary Sacrifice Share Plan are as follows:

Name	Date of Entrance	Entitlement No. of Shares	No. of Shares to be Issued	Shares Vested to end of 2012	Shares Forfeited in the year	Financial Year in which shares vested	Nature of shares	Share issue price	Total Value Salary Sacrificed
Stephen Birkbeck	4/09/12	1,000,000	1,000,000	100%	0%	2012 – 100%	Ordinary Shares	\$0.05	\$50,000
Jan Jorgensen	4/09/12	500,000	500,000	100%	0%	2012 – 100%	Ordinary Shares	\$0.05	\$25,000
Colin Triefus	4/09/12	340,000	340,000	100%	0%	2012 – 100%	Ordinary Shares	\$0.05	\$17,000

## 4.5.8 The Atlas Non-Executive Director Fee Sacrifice Share Plan

On the 26 June 2012 828,000 shares were issued into the Atlas Pearls and Perfumes Ltd Non-Executive Director Trust at \$0.05 per share. These shares have since been issued to Non-Executive Directors.

The Non-Executive Director Salary Sacrifice Share Plan is open to Eligible Participants, being any Non-Executive Director who is declared by the Board to be an Eligible Participant for the purpose of the Plan.

The Company's Non-Executive Directors will receive a portion of their Director's fee in the form of Shares.

The Company agrees to issue or procure the transfer of Shares to eligible Non-Executive Directors, in lieu of the amount of Directors' fees that each eligible Non-Executive Director has agreed to sacrifice from their monthly Directors' fees each financial year.

The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30th of May 2012, the issue price per Share is 5 cents.

**4.5.9** The details relating to the allocation of shares to directors and key management personnel under the Non-Executive Director Fee Salary Sacrifice Share Plan are as follows:

Name	Date of Entrance	Entitlement No. of Shares	No. of Shares Issued	Date of Issue	Shares Vested to end of 2012	Shares Forfeited in the year	Financial Year in which shares vested	Nature of shares	Share issue price	Total Value Salary Sacrificed
Joseph Taylor	26/6/12	180,000	180,000	29/6/12	100%	0%	2012 – 100%	Ordinary Shares	\$0.05	\$9,000
Geoffery Newman	26/6/12	648,000	648,000	29/6/12	100%	0%	2012 – 100%	Ordinary Shares	\$0.05	\$32,400

Notes – These shares were issued under the NED plan described above directly to the NEDs, for past services rendered.

This is the end of the Audited Remuneration Report.

# DIRECTOR'S REPORT

## PRINCIPLE ACTIVITIES AND REVIEW OF OPERATIONS

### 1.1 Principal Activities

The Company is a producer of pearls and perfumes with administrative and retail centres in Bali and Perth, pearl farms in Indonesia and a natural ingredients processing plant in Tasmania for the processing of natural ingredients to extract essential oils, fragrances and flavours. In addition, The Company has a joint venture, World Senses, with Nomad Two Worlds in marketing and value adding.



# D I R E C T O R ' S   R E P O R T

## 1.2 Review of operations and significant changes in the state of affairs

### 1.2.1 Year in Review

A fresh management approach, a recapitalised balance sheet which supported a new sales strategy resulted in lifting the average loose pearl price over the course of the year by 32%. Remaining profitable in these challenging times is testament to the Company, which achieved a normalised EBITDA of \$1.345m for the year.

The Company's liquidity and net equity positions improved substantially from 31st December 2011 to 31<sup>st</sup> December 2012.

### 1.2.2 Shareholder Returns

	2012 \$'000	2011 \$'000	2010 \$'000
Net profit/(loss) after tax	1,406	594	2,387
Basic EPS (cents)	0.68	0.43	1.91
Dividends paid	Nil	Nil	Nil
Dividends (per share) (cents)	Nil	Nil	Nil

The adjustments from NPAT to arrive at reported Normalised EBITDA for these periods are shown below:

	2012 \$'000	2011 \$'000	2010 \$'000
Net profit/(loss) after tax	1,406	594	2,387
Tax expense/( benefit)	(1,767)	504	415
Net interest & costs (received)/paid	(650)	264	192
Depreciation & amortisation	216	121	54
Foreign Exchange (gain)/loss	(1,137)	919	412
Agriculture Standard revaluation (gain)/loss	3,147	(962)	(2,719)
Other Non-Operating (income)/expense	130	115	202
Normalised EBITDA	1,345	1,555	943

### 1.2.3 Financial Position

	2012 \$'000	2011 \$'000	2010 \$'000
Total Assets	33,602	30,831	26,593
Debt (Current & Non-current)	(4,936)	(5,720)	(3,596)
Other Liabilities	(4,449)	(4,828)	(3,635)
Shareholder funds	24,217	20,283	19,307
Debt / Shareholder funds	20%	26%	19%
Number of shares on issue (million)	237.135	142.858	136.358
Net tangible assets per share (cents)	10.2	14.4	14.1
Share price at 31 December (cents)	4.5	7.7	11.0

# D I R E C T O R ' S   R E P O R T

There has been an increase in the net assets of the group of \$3.9M in the year to 31 December 2012. Movements in the net worth of the economic entity are summarised below:

- Capital raising and improved cash management saw cash reserves increase to \$2.1M (2011 - \$0.4M) at the end of 2012. During 2012, \$4.7M of equity was raised through a combination of rights issue and share placements resulting in the issue in of 94.2 million shares and debt was decreased by approximately \$0.8M.
- Trade receivables increased to \$3.3M (2011 - \$1.1M) principally due to the recognition of the PT Cendana Indopearls 2007 Tax Appeal of \$2.3M, which was successfully award to the Company in December 2012 with funds received in February 2013.
- Oyster inventory value decreased by \$0.8M during 2012 despite an improvement in the market price of pearls from ¥5,711/momme in 2011 to ¥7,296/momme in 2012. This was partly due to a weaker Yen: ¥89.02 to AUD (2012) compared to ¥78.74 to AUD (2011), and a lower number of Oysters from 1.92M in 2011 to 1.86M to in 2012.
- Pearls on hand increased from 120,857 in 2011 to 130,090 in 2012; however, fair value decreased from \$3.9M in 2011 to \$1.7M in 2012 as the majority of high value pearls were sold leaving lower value pieces in stock.
- Jewellery inventory remained constant for the year at \$2.5M despite the Company opening a new store in Sanur due to better inventory management controls being in place.
- There was no substantial change in property, plant and equipment, which remain constant at just over \$4M for 2011 and 2012.
- Borrowings decreased by \$0.8M to \$4.9M in 2012 due to debt capital reduction and a weaker Japanese Yen.

## 1.2.4 Operating Results

Atlas recorded a net profit after tax for the year ended 31 December 2012 of \$1.4M, an increase of \$0.8M (2011 \$0.6M).

The operating revenue in 2012 was \$12.3M, consistent with 2011 (\$12.3M). Pearl sales revenue was lower by \$1.5M but retail and wholesale sales revenue increasing by \$0.6M from \$1.3M in 2011 to \$1.9M in 2012. The number of jewellery retail outlets in Bali increased by one to a total of seven. In April 2012 the Company commenced wholesale jewellery sales.

Overall gross profit margin in 2012 improved to 56% from 54% in 2011. Poor loose pearl prices in January and February impacted on average margins but by year's end the average price of loose pearls improved by 32%. Margins in retail were increased towards the end of 2012 as the Company sought to improve store profitability. The introduction of the wholesale jewellery division helped improve overall margins.

Marketing, Administration and Finance Costs in aggregate decreased by 14% in 2012 compared to 2011, as the Company improved up its' liquidity with efficient cost management.

## 1.2.5 Pearl Oyster Production Results

The company seeded 550,000 pearl oysters in 2012 using stringent quality selection criteria. Seeding took place at the North Bali, Alor and Lembata sites.

Juvenile and Virgin stocks remained constant from 2011 to 2012 at 1.1 million oysters. The Company's third hatchery was commissioned in August 2012, granting Atlas the capacity to achieve greater selectivity and better consistency in juvenile oyster production.

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The Lembata site yielded excellent results following seeding of virgin oysters. Seeding at two sites helps mitigate geographical risk and allows better timing of seeding events matched to the most environmentally favourable times specific to each site. The first pearl harvests from Punggu Island in 2012 are on par with our other pearl farming sites but at a significantly lower production cost. In 2013 the Punggu Island site will rapidly increase in capacity.

A new grow-out site commissioned in Patas, North Bali during 2012 has already demonstrated above average yield in the number of Juvenile oysters reared from Spat.

## **1.2.6 Bali Project**

The North Bali hatchery at Gerokgak maintained strong results in spat settlement for the 2011/12 production season. Multiple successful spawning events from this facility allowed for high selectivity whilst providing surplus larvae for translocation and rearing at the newly commissioned Lembata Hatchery thereby fast tracking the scale up in production at that site.

North Bali continues as the primary training and research facility with successful programmes being quickly implemented across all other sites.

## **1.2.7 Alyui Bay Pearling Centre**

Alyui Bay at the west end of Waigeo Island in Papua Province remains an important pearl growing site with a reduced capacity and greater focus on specific, high quality production. Over the last 12 months a concerted effort has resulted in a major cost savings in Alyui Bay as a result of staff relocation and reduction, lower logistical and managerial demands and reductions in seeded stock.

## **1.2.8 Eastern Indonesia Pearling Centres**

The reduced farming programme at Alyui has been more than offset by the rapid growth in seeded stock numbers at the Alor and Punggu (Flores) sites. These areas have shown pearl quality consistent with our premier Alyui site but at a greatly reduced cost, largely driven by better regional transport, infrastructure and proximity to the breeding and seeding centres of Bali and Lembata. Further expansion in these sites will continue through 2013.

## **1.2.9 “3000 Hands: Sharing and Sustaining”**

“3000 Hands: Sharing and Sustaining” is the Corporate Social Responsibility position of our new company Atlas Pearls and Perfumes. Atlas runs on passion fuelled by the knowledge that our products are environmentally sustainable and that stakeholders at every level share the benefits. In particular the support and involvement of traditional indigenous communities in Indonesia and Australia is critical and without it Atlas could not and would not exist. This philosophy has demanded we maintain excellent relations at every level of community and government ensuring a secure business environment. The Company’s position in Indonesia and beyond has never been stronger as our school scholarships, community support and development and cultural exchange programmes continue to grow.

This concept results from exploring the interactions of the people who create our products. Over 3000 hands are involved in the journey of an Atlas pearl from the moment an oyster is born until this living gem is delivered into the hands of the wearer. Consequently, every Atlas pearl has a unique history encapsulating the fragile natural bounty of Indonesia with the ethnic diversity of those farming the pearl and the cultural variety of the people that support the farms. Our pearls touch so many hearts and are an essential part of the remote communities and this makes Atlas unique. Atlas is not a venture built on a single personality. The company is owned by

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over 2,000 individuals, employs more than 800 people and directly influences the lives of many thousands across the breadth of the Indonesian archipelago. This relationship is realised through a great number of initiatives covering health, education and training, active community participation, transport and environmental protection.

Perfume has become a new and dynamic part of our business but the philosophy remains the same. *Fire Tree*<sup>1</sup>, released internationally in 2012, is the embodiment of successfully working with Australia's traditional owners. As with our pearls so to the perfume division links many different people and cultures. Our circle of involvement stretches from Western Australia, Tasmania and Indonesia to the USA and France.

With our partners Nomad Two Worlds, Atlas is collaborating in bringing together the photographic work of Russell James with highly regarded Indonesian painters to create an exciting cross-cultural art series. This project is well timed as Bali hosts the APEC Summit in 2013.

Atlas is a creative endeavour and our story reads much like a romantic adventure. Atlas has enlisted talented Griffith Film School Honours graduate, Arun Ketsirat to work alongside Dr Joseph Taylor in producing a series of web hosted short films that tell stories of the people and work of the group. These stories will help build the Atlas identity and clearly define our unique point of difference in the luxury sector as producers of sustainable, high quality goods. Already our "work in progress" footage has helped win over the interest of luxury brands in carrying Atlas products.

As a shareholder you are part of 3000 Hands.

1. Visit <https://vimeo.com/channels/3000hands> to watch and hear the story of Pearls and Perfumes explained.

## 1.2.10 Personnel

Atlas places a strong emphasis on training and retention of its workforce to ensure a more efficient and cost effective operation. Staff numbers reduced slightly in 2012 as the Company chose to consolidate its operations for the year.

Staff numbers at the end of the year were as follows:

	2012	2011	2010
Expatriates – Indonesia	20	18	15
Indonesian nationals – permanent	629	571	338
Indonesian nationals – part time	178	256	126
Australia	13	10	5
Total Personnel	840	855	484

## 1.2.11 Marketing

During 2012, Atlas changed its marketing and distribution strategy for loose pearls by holding fewer, larger auctions in Japan and Hong Kong. This allowed more time for grading and better pearl presentation, which helped increase the selling price.

Retail and wholesale jewellery revenue improved significantly in 2012. This was due to the increased number of stores in Bali where a new retail outlet in Sanur was opened in October 2012, a full years trading in the Perth flagship store and the opening of the wholesale division in the first half of 2012, which is selling the Perl'eco brand to the Showcase chain of stores in Australia.

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By increasing gross margin and reducing costs we were able to improve the return from the Retail division.

In 2013 we anticipate improving the gross margin further with substantially more sales in the second half, however, we must quickly adapt to the changes in tourist and discretionary spending patterns. We are rapidly developing new product ranges in the Commodity and Mainstream categories to give our product offer greater affordability, variation and excitement plus a wider appeal to the Asian market. We anticipate new product categories, including 'South Sea' silver ranges, and cosmetics will be introduced prior to the end of 2013. In addition we are focusing on improving and growing the retail business at our farm sites.

A new Mother of Pearl (MOP) processing facility has been built in Gerokgak, North Bali. The resulting crushed MOP is suitable for further extraction processes in Australia and Europe. We can now process all components of oyster by-products, including pearl meat for Export sales and internal supply.

## **1.2.12 Research and Development**

Research and development remains a cornerstone of the company's success and never more so since the acquisition of EOT. Atlas is working in the following areas:

- Pearl oyster genetics and selective breeding
- Novel pearl growth enhancement technology utilising various natural and organic compounds
- Fouling and predation control systems
- Materials and equipment for pearling
- Plant genetics and production
- Plant and pearl (volatile) extraction and distillation
- Pearl and plant processing (protein) and bioactive extractive (non volatile) extraction
- Crushing, anti-aging and infusion of nacre
- Perfume accords and compounding
- Perfume and cosmetic product formulation

Many of the above programs are targeted at creating new products for more diverse revenue streams and are being partially funded by R&D tax incentives.

During 2013 Atlas will seek ways of combining the research talents between the pearl and new perfume divisions.

## **1.2.13 Conclusion**

The 2012 evolution of our management structure and vision, coupled with the acquisition of Essential Oils of Tasmania, the formation of World Senses and a corporate name changed the face of our business. Across Australia, Indonesia and the Philippines the number of active pearl companies has more than halved. Despite this fact and a volatile world economy Atlas remains a profitable business that continues to grow in pearling and, with perfumes, has created product and geo-political diversity with a vertically integrated marketing programme.

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We have strengthened the balance sheet, dramatically improved our liquidity, built a global competitive advantage with our pearls, and created product differentiation through the linkage of pearls and perfumes. With this new, diversified business model Atlas is well poised to make the most of the coming years.

## 2. DIVIDENDS

No dividends were declared and paid by the Company during the financial year ended 31 December 2011 and 2012.

## 3. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

### Change of Company Name

On the 16<sup>th</sup> of January 2013 Atlas South Sea Pearl Limited changed its name to Atlas Pearls and Perfumes Ltd. This followed the incorporation of World Senses Pty Ltd (joint venture with Nomad Two Worlds) and shareholder approval obtained at the EGM held on 4<sup>th</sup> December 2012 for the broadening of the business to purchase Essential Oils of Tasmania (EOT) and expand the product range into luxury perfumes and cosmetics. Atlas Pearls and Perfumes Ltd (Atlas P&P) is a name which more closely reflects this luxury supplier status.

### Rights Issue

Atlas Pearls and Perfumes Ltd undertook a Rights Issue which closed on 18<sup>th</sup> of January 2013. The Company has issued 30,240,735 shares at a price of five (5) cents per share and 30,240,735 free attaching options and raised \$1,512,036.75 before costs. The new shares will rank equally with the Company's existing issued shares.

### Essential Oils of Tasmania Acquisition

The Acquisition of Essential Oils of Tasmania was finalised on the 15<sup>th</sup> January 2013. Atlas Pearls and Perfumes agreed to purchase Essential Oils of Tasmania for a price of \$650,000, paid by way of 10 million shares in Atlas Pearls & Perfumes at 6.5 cents per share. As per Resolution 4 of the Extraordinary General meeting, Essential Oils of Tasmania Pty Ltd and Atlas Pearls and Perfumes will provide financial assistance to Abermac Pty Ltd and will issue Abermac Pty Ltd 10,833,333 shares and 350,000 Convertible Notes and Shares upon any conversion of those Convertible Notes. The Convertible notes have a Face Value of \$1.00 per convertible note, a maturity date of 15 January 2015, an annual interest rate of 6% payable half-yearly in arrears and a conversion price – the lower of \$0.05 and 90% of the average sales price of the Company's shares sold on ASX for each trading day on which shares are sold on ASX during the 10 days prior to the conversion date.

The funds raised from the issue of the remaining 3,333,334 fully paid ordinary shares and 500,000 convertible notes will be used to:

- a) Support existing current assets;
- b) Reduce existing debt in the Essential Oils of Tasmania business being acquired by the Company;
- c) Fund research and development initiatives;
- d) Fund increased production of strategic pearl by-product and perfume ingredients and commercialisation of new consumer products through World Senses Pty Ltd;
- e) Fund the expansion of the existing pearl auction strategy; and
- f) Strengthen the Statement of Financial Performance for general working capital purposes.

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## **2007 Indonesian Tax Appeal**

On the 25<sup>th</sup> of January 2013 Atlas's Indonesian subsidiary PT Cendana Indopearl received official notification from the Indonesian Tax Court that it had won the 2007 tax appeal.

The final amount awarded to Atlas was IDR 15,739,416,501 (approximately \$AUD1.57M) plus accrued interest estimated to be in the order of IDR 7,552,734,945 (approximately \$AUD 0.76M). The estimated total being \$AUD2.33M.

On the 19<sup>th</sup> February 2013, the balance due to Atlas was received in full with interest. The amount received by Atlas's Indonesian subsidiary, PT Cendana Indopearls was IDR 15,739,416,501 (approximately \$AUD1.57M) plus accrued interest estimated to be in the order of IDR 7,552,734,945 (approximately \$AUD 0.76M) making a total of IDR 23,292,151,146" (approximately \$AUD2.33M). This substantial tax refund has had a major positive effect on the company's Statement of Financial Performance and will further enhance our marketing strategies for 2013 by improving the timing of sales events.

## **Appointment of New Director – Tim Martin**

On the 4<sup>th</sup> of February 2013 Atlas appointed Mr Tim Martin to the Board of Directors. Mr Martin will act as a Non-Executive Director for Atlas.

The results of significant operating activities are made available to shareholders and other interested parties through announcements to the Australian Securities Exchange and through regular newsletters.

## **Issue of Convertible Notes and 2,053,842 Fully Paid Ordinary Shares on 7 March 2013**

Issued an additional 350,000 convertible notes, unlisted unsecured with the following terms;

- i. Face value - \$1.00 per convertible note.
- ii. Maturity date – 1 March 2015.
- iii. Convertible at the election of the holder during prescribed 10 business day "windows" prior to the first and second anniversary of the date of issue.
- iv. Conversion price – the lower of \$0.05 and 90% of the average of the daily volume-weighted average sales price of the Company's shares sold on ASX for each trading day on which shares are sold on ASX during the 10 trading days prior to the conversion date.
- v. Interest – 6% per annum payable half yearly in arrears with the first interest payment date being 1 September 2013.
- vi. Redemption – at the election for the Company at any time before the maturity date, otherwise on the maturity date.

2,053,842 fully paid ordinary shares issued. 1,220,509 at \$0.05 per share and 833,333 issued at \$0.06 per share.

Issue of (i) 103,709 fully paid ordinary shares on exercise and 103,709 unlisted options exercisable at \$0.05 each, on or before 29 January 2014; (ii) 833,333 fully paid ordinary shares as announced to ASX on 25 October 2012 and approved by shareholders in the General Meeting of Shareholders held on 4 December 2012, and (iii) 1,116,800 fully paid ordinary shares as placement of the shortfall from the Company's non-renounceable entitlements offer that closed on 18 January 2013.

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As approved in the General Meeting of Shareholders held on 4 December 2012. The funds raised from all issues will be used to:

- a) Support existing current assets;
- b) Reduce existing debt in the Essential Oils of Tasmania business being acquired by the Company;
- c) Fund research and development initiatives;
- d) Fund increased production of strategic pearl by-product and perfume ingredients and commercialisation of new consumer products through World Senses Pty Ltd;
- e) Fund the expansion of the existing pearl auction strategy; and
- f) Strengthen the Statement of Financial Position for general working capital purposes.

## **Issued capital, convertibles and Unlisted Options on 20 March 2013**

On 20 March 2013 the Group had the following equity instruments on issue;

	<u>No.</u>
Issued Capital	277,852,983
Treasury Shares	7,841,616
Convertible Notes	950,000
Unlisted Options	<u>31,153,828</u>

## **4. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS**

A major focus in 2013 will be to fully commercialise the Eastern Indonesian operations in Punggu, Lembata and Alor whilst rationalising the level of production in our older sites of Alyui and Bali. The goal is for every site to achieve maximum efficiency.

The results of a recent cost/benefit analysis across all pearl product lines is being implemented with certain levels of pearl production being phased out or contracted to third parties whilst Atlas focuses on those with the greatest margin. The variation in value across pearl categories has never been greater with very strong demand in the round and semi round categories but increasingly weak demand in many of the other shapes. To enhance the likelihood of producing the right size and shape for the new world market, we are increasing the selective pressure and quality standards of the oysters we seed. As a critical step towards this the Alor hatchery equipment will be relocated to Bali in a facility designed to run an independent selective breeding programme. Essentially this operation will be the equivalent of a stud farm.

The Per/eco partnership with Showcase is growing following positive sales results from member retailers. Atlas is dedicating greater resources to this effort and other wholesale jewellery initiatives in 2013. 2012 saw Atlas put its stamp into the Australian domestic marketplace. In 2013, we expect to increase our Australian market presence. Further, the Atlas on-line jewellery retail store will commence trading and the new Atlas Pearls and Perfumes website will be launched.

World Senses will roll out a number of key perfume initiatives in 2013. The Sea Spirit brand will launch in Los Angeles during the northern spring. Some key negotiations with major luxury companies are expected to conclude during 2013 whilst sales of EOT products through their traditional market channels will continue and expand.

# D I R E C T O R ' S   R E P O R T

## 5. DIRECTORS' INTERESTS

The relevant interest of each current Director in the share capital of the Company, as notified by the Directors to the Australian Stock Exchange in accordance with S205G (1) of the *Corporations Act 2001*, at the date of this report is as follows:

	Ordinary Shares		Unlisted Options	
	Direct	Indirect	Direct	Indirect
S.P. Birkbeck <sup>(3)</sup>	-	36,109,027	-	6,018,172
J.J.U. Taylor <sup>(1),(2)</sup>	200,000	1,200,000	-	-
G. Newman <sup>(2)</sup>	-	1,411,295	-	128,000
T. Martin <sup>(4),(5)</sup>	2,856,545	13,771,600	400,000	2,128,600

1. The 1,700,000 shares held indirectly by Dr J Taylor and Mr S Adams are held in trust under the rules of the Employee Share Plan. The ownership of these shares does not vest to Dr Taylor and Mr Adams until certain employment conditions are met (Refer Note 23). Mr S Adams resigned as a director on the 16 January 2012.
2. Dr J Taylor acquired 180,000 shares, and G Newman acquired 648,000 shares in 2012 under the Non-Executive Director Fee Salary Sacrifice Share Plan (Refer to Note 4.5.9 of Remuneration Report).
3. There are 1,000,000 shares held in trust in the ESP for Stephen Birkbeck (Refer to Note 4.5.7).
4. Mr T Martin was appointed director 4 February 2013.
5. 12,771,600 indirect shares held by Mr T Martin are held by a private entity which Mr T Martin is 1 of 4 directors. This entity is classified as a related party.

## 6. OPTIONS

The Company had no options granted over unissued shares during the financial year ended 31 December 2012. Subsequent to year end as part of the rights issue on 18 January 2013 a total of 30,240,735 unlisted options expiring 29 January 2014 exercisable at \$0.05 each were issued pursuant to the Company's non-renounceable entitlements Prospectus dated 16 November 2012.

## 7. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### 7.1 Indemnification

The Company has agreed to indemnify the following current directors of the Company; Mr S Birkbeck, Dr J Taylor, Mr G Newman and Mr T Martin and the following former directors; Mr S Adams, Mr RP Poernomo, Mr G Snow, Mr R Wright and Mr I Murchison, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct which involves negligence, default, breach of duty or a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

# D I R E C T O R ' S   R E P O R T

## 7.2 Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$16,548 (2011 - \$18,458) in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former Directors and Officers.

## 8. NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. Details of the amounts paid or payable to the auditor (BDO) for audit and non-audit services provided during the year are set out below.

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 general standards 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 independence requirements of the *Corporations Act 2001*. The nature of the service provided do not compromise the general principles relating to auditor independence because they relate to tax advice in relation to compliance issues and review of the tax provisions prepared by the Company. None of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants*.

The following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms during the years ended 31 December:

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>AUDIT SERVICES</b>		
BDO Australian Firm:		
Audit and review of financial reports	<b>82,007</b>	83,812
Related practices of BDO Australian Firm	<b>30,917</b>	32,260
<b>Total remuneration for audit services</b>	<b>112,924</b>	116,072
<b>TAXATION SERVICES</b>		
BDO Australian Firm:		
Tax compliance services and advice	<b>54,119</b>	26,011
Related practices of BDO Australian Firm	-	1,356
<b>Total remuneration for taxation services</b>	<b>54,119</b>	27,367
<b>Total remuneration for non-audit and taxation services</b>	<b>54,119</b>	27,367

# D I R E C T O R ' S   R E P O R T

## 9. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied under section 237 of the *Corporations Act 2001* for leave of court to bring proceedings on behalf of the Company or to 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 part of those proceedings. The Company has not been a party to any proceedings during the year.

## 10. AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 47.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'S.P. Birkbeck', is written over a faint, light-colored grid background.

S.P Birkbeck

Chairman

**26 March 2013**

# AUDITORS INDEPENDENCE DECLARATION



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18 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6150  
Australia

26 March 2013

Board of Directors  
Atlas Pearls & Perfumes Ltd  
Shop 1, 47-49 Bay View Terrace  
CLAREMONT WA 6110

Dear Sirs,

## DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF ATLAS PEARLS AND PERFUMES LTD

As lead auditor of Atlas Pearls and Perfumes Ltd (formerly Atlas South Sea Pearl Limited) for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Atlas Pearls and Perfumes Ltd and the entities it controlled during the period.

Chris Burton  
Director

BDO Audit (WA) Pty Ltd  
Perth, Western Australia

BDO Audit (WA) Pty Ltd ABN 75 110 260 197 is a member of a national association of independent member firms which are all members of BDO (Australia) Pty Ltd ABN 75 110 260 197, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Pty Ltd are members of BDO International LLC, a US company limited by guarantee, and form part of the worldwide BDO network of independent member firms, collectively referred to as "BDO member firms". Professional standards and regulatory requirements may vary from the rules and standards of financial services companies in each State or Territory other than Western Australia.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 \$	2011 \$
Revenue from continuing operations	2	12,304,756	12,350,171
Cost of goods sold		(5,403,943)	(5,665,016)
Gross profit		6,900,813	6,685,155
Other income	2	2,051,581	2,825,138
Marketing expenses		(157,668)	414,924
Administration expenses	3	(4,625,963)	(4,242,608)
Finance costs	3	(266,541)	(264,907)
Research and development		-	(106,473)
Other expenses	3	(4,262,875)	(3,383,348)
<b>Profit/(Loss) before income tax</b>		<b>(360,653)</b>	1,098,031
Income tax (expense)/benefit	4	1,766,803	(504,095)
<b>Profit/(Loss) for the year from continuing operations</b>		<b>1,406,150</b>	593,936
<b>Other comprehensive income/(losses)</b>			
Exchange differences on translation of foreign operations		(1,795,785)	(102,485)
Share of other comprehensive income of joint ventures		-	-
Income tax relating to components of other comprehensive income		-	-
<b>Other comprehensive income/(losses) for the year, net of tax</b>		<b>(1,795,785)</b>	(102,485)
<b>Total comprehensive income/(losses) for the year</b>		<b>(389,635)</b>	491,451
<b>Profit/(loss) is attributable to:</b>			
<b>Owners of the Company</b>		<b>1,406,150</b>	593,936
<b>Total comprehensive income/(losses) is attributable to:</b>			
<b>Owners of the Company</b>		<b>(389,635)</b>	491,451
Overall operations :			
<b>Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share (cents)	5	0.68	0.43
Diluted earnings per share (cents)		0.67	0.42

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 \$	2011 \$
<b>Current assets</b>			
Cash and cash equivalents	6	2,127,414	409,871
Trade and other receivables	7	3,335,254	1,078,409
Derivative financial instruments	8	181,327	-
Inventories	9	4,632,909	6,231,292
Biological assets	10	7,613,044	6,771,528
<b>Total current assets</b>		<b>17,889,948</b>	14,491,100
<b>Non-current assets</b>			
Loans from joint venture entities		127,816	-
Equity accounted for investments	30	554,766	-
Other investments		89,107	-
Inventories	9	176,936	264,865
Biological assets	10	8,821,501	10,679,488
Property, plant and equipment	11	4,040,748	4,007,400
Deferred tax assets	14(b)	1,900,919	1,388,527
<b>Total non-current assets</b>		<b>15,711,793</b>	16,340,280
<b>Total assets</b>		<b>33,601,741</b>	30,831,380
<b>Current liabilities</b>			
Trade and other payables	12	2,148,962	2,367,752
Borrowings	13	4,755,043	5,327,089
Derivative financial instruments	8	-	146,450
Current tax liabilities	14(a)	368,091	74,417
Short-term provisions	15	1,805	23,399
<b>Total current liabilities</b>		<b>7,273,901</b>	7,939,107
<b>Non-current liabilities</b>			
Borrowings	13	180,879	393,397
Deferred tax liabilities	14(a)	1,930,243	2,215,056
<b>Total non-current liabilities</b>		<b>2,111,122</b>	2,608,453
<b>Total liabilities</b>		<b>9,385,023</b>	10,547,560
<b>Net assets</b>		<b>24,216,718</b>	20,283,820
<b>Equity</b>			
Contributed equity	16	27,610,085	23,287,552
Reserves	17	(8,466,622)	(6,670,837)
Retained profits/(accumulated losses)	18	5,073,255	3,667,105
<b>Total equity</b>		<b>24,216,718</b>	20,283,820

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

Consolidated	Note	Attributable to owners of Atlas Pearls and Perfumes LTD				Total equity
		Contributed equity	Share based payment reserve	Foreign currency translation reserve	Retained earnings/ (accumulated losses)	
		\$	\$	\$	\$	\$
<b>Balance at 1 January 2012</b>		<b>23,287,552</b>	<b>581,029</b>	<b>(7,251,866)</b>	<b>3,667,105</b>	<b>20,283,820</b>
Profit/(loss) for the year		-	-	-	1,406,150	1,406,150
Exchange differences on translation of foreign operations		-	-	(1,795,785)	-	(1,795,785)
<b>Total comprehensive income for the year</b>		-	-	(1,795,785)	1,406,150	(389,635)
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs	16	4,322,533	-	-	-	4,322,533
Dividends provided for or paid	19	-	-	-	-	-
Employee share scheme	17	-	-	-	-	-
		4,322,533	-	-	-	4,322,533
<b>Balance at 31 December 2012</b>		<b>27,610,085</b>	<b>581,029</b>	<b>(9,047,651)</b>	<b>5,073,255</b>	<b>24,216,718</b>
<b>Balance at 1 January 2011</b>		22,512,922	581,029	(7,149,381)	3,073,169	19,017,739
Profit/(loss) for the year		-	-	-	593,936	593,936
Exchange differences on translation of foreign operations		-	-	(102,485)	-	(102,485)
<b>Total comprehensive income for the year</b>		-	-	(102,485)	593,936	491,451
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs	16	774,630	-	-	-	774,630
Dividends provided for or paid	19	-	-	-	-	-
Employee share scheme	17	-	-	-	-	-
		774,630	-	-	-	774,630
<b>Balance at 31 December 2011</b>		<b>23,287,552</b>	<b>581,029</b>	<b>(7,251,866)</b>	<b>3,667,105</b>	<b>20,283,820</b>

The accompanying notes form part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	2012	2011
	\$	\$
<b>Cash flows from operating activities</b>		
Proceeds from pearl, jewellery and oyster sales	11,358,557	11,934,837
Proceeds from other operating activities	45,906	376,076
Interest paid	(239,661)	(229,445)
Interest received	33,329	16,758
Payments to suppliers and employees	(11,111,972)	(12,921,713)
Income tax( paid)/received	(390,105)	(53,135)
Net cash provided by/(used in) operating activities(Note 24.2)	<b>(303,946)</b>	(876,622)
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(900,576)	(2,325,302)
Joint venture distributions (paid)/received	(100,000)	-
Other loans	(89,105)	-
Net cash provided by/(used in) investing activities	<b>(1,089,682)</b>	(2,325,302)
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	2,395,851
Repayment of borrowings	(997,466)	(555,257)
Proceeds from issue of shares	4,235,055	774,630
Share issue transaction costs	(105,923)	-
Net cash provided by/(used in) financing activities	<b>3,131,666</b>	2,615,224
Net increase/(decrease) in cash and cash equivalents	<b>1,738,039</b>	(586,700)
Cash and cash equivalents at the beginning of the financial year	409,871	998,335
Effects of exchange rate changes on cash and cash equivalents	(20,496)	(1,764)
Cash and cash equivalents at the end of the financial year (Note 24.1)	<b>2,127,414</b>	409,871

The accompanying notes form part of these financial statements.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### 1.1 Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. Atlas Pearls and Perfumes Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial statements cover the consolidated entity of Atlas Pearls and Perfumes Ltd and its subsidiaries. Atlas Pearls and Perfumes Ltd is a listed public company, incorporated and domiciled in Australia.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors report which is not part of these financial statements.

The financial statements were authorised for issue by the directors on 25th March 2013. The directors have the power to amend and reissue the financial statements.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been consistently applied to all the years presented, unless otherwise stated.

#### 1.2 Compliance with IFRS

The consolidated financial statements of the Atlas Pearls and Perfumes Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### 1.3 New and amended standards by the group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

#### 1.4 Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2012.

#### 1.5 Historical Cost Convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments and biological assets) at fair value through profit or loss.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.6 Critical Accounting Estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.33.

### 1.7 Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Atlas Pearls and Perfumes Ltd ("Company" or "parent entity") as at 31 December 2012 and the results of its subsidiaries for the year then ended. Atlas Pearls and Perfumes Ltd and its subsidiaries together are referred to in this financial statements as the consolidated entity.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and Statement of Financial Performance respectively.

#### (i) Employee Share Trust

The Group has formed a trust to administer the Group's employee share scheme. The trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by Atlas South Sea Pearl Limited Employee Share Trust are disclosed as treasury shares and deducted from contributed equity.

#### (ii) Joint Ventures

Jointly controlled assets

The proportionate interest in the assets, liabilities and expenses of a joint venture activity has been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 31.

## **NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

### Joint venture entities

The interest in a joint venture entity is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the entity is recognised in the profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details relating to the entity are set out in note 31.

Profits or losses of transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisation value of current assets, or an impairment loss.

### **1.8 Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries operate and generate taxable income. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax is credited in the statement of comprehensive income 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 tax assets are recognised for deductible temporary differences and unused tax losses only to the extent that it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **1.9 Inventories**

- (a) Pearls – The cost of pearls grown by the Group is the fair value less estimated point of sale costs at the time the pearls are harvested.
- (b) Nuclei - quantities on hand at the year end are valued at the lower of cost and net realisable value.
- (c) Oysters – refer note 1.10.
- (d) Other inventories – including jewellery, fuel, mechanical parts and farm spares at the period end are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

## **NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

### **1.10 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 statement of comprehensive income 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 statement of comprehensive income in the year of harvest. At the time of harvest, pearls are recorded as inventory.

The details of the Biological assets that are held by the economic entity as at 31 December are provided at Note 10.

### **1.11 Property, Plant & Equipment**

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

#### **Property**

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction), based on periodic valuations by external independent valuers, less subsequent depreciation for buildings.

Leasehold property is shown at cost and amortised over the shorter of the term of the unexpired lease on the property or the estimated useful life of the improvements on the property.

#### **Plant and Equipment**

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

The carrying value of plant and equipment and their useful lives are reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these assets which is assessed on the basis of the expected net cash flows that will be received from the assets employed and subsequent disposal.

The cost of fixed assets constructed within the economic entity includes the cost of materials and direct labour. Repairs and maintenance carried out on the assets are expensed unless there is a future economic benefit that will flow to the Group which can be reliably measured, in which case the value of the asset is increased.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.11 Property, Plant & Equipment (Cont.)

#### Depreciation

Depreciation on property, plant and equipment is calculated on a straight line basis so as to write off the cost or valuation of property, plant and equipment over their estimated useful lives commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate	
	2012	2011
Leasehold land & buildings & improvements	5-10%	5-10%
Vessels	10%	10%
Plant & equipment	10-50%	20-50%

### 1.12 Investments and Other Financial Assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

#### (a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the statement of comprehensive income in the period in which they arise.

#### (b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

#### (c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

#### (d) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Unrealised gains and losses arising from changes in fair value are

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

taken directly to equity. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

### *(e) Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the economic entity has transferred substantially all the risks and rewards of ownership.

### *(f) Measurement*

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise.

### *(g) Impairment*

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is evidence of impairment for any of the Group's financial assets carried at amortised cost, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The cash flows are discounted at the financial asset's original effective interest rate. The loss is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.13 Derivative instruments

Derivative instruments are initially measured at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Gains and losses arising from changes in fair value are taken to the statement of comprehensive income.

#### 1.1.4 Impairment of assets

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Non financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### 1.15 Foreign Currency Translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the subsidiaries within the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Atlas Pearls and Perfumes Ltd's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

All foreign exchange gains and losses are presented in the income statement within other income or other expenses unless they relate to financial instruments.

#### (c) Group Companies

The results and financial position of all group entities (none of which has the currency of a hyperinflation economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
2. Income and expenses for each statement of comprehensive income are translated at average exchange rates;
3. and all resulting exchange differences are recognised as a separate component of equity.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings are repaid, a proportional share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

### 1.16 Employee Benefits

#### *Wages and salaries, annual leave, sick leave and long service leave*

Provision is made for the Group's liability for employee entitlements arising from services rendered by employees to reporting 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. Liabilities due to be paid within 12 months of the reporting date are recognised in other payables. The liability for long service leave is recognised in the provision for employee benefits.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred.

#### *Share-based payments*

Share-based compensation benefits are provided to employees via the Atlas Pearls and Perfumes Ltd Employee Share Plan. Information relating to this scheme is set out in note 23.

The fair value of shares granted under the Employee Share Plan is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employee becomes unconditionally entitled to the shares.

### 1.17 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of a past event; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

### 1.18 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, high liquid investments with original maturity or three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts.

### 1.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.19 Revenue recognition (Cont.)

- (a) Sales Revenue comprises of revenue earned from the sale of products or services to entities outside the economic 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.

### 1.20 Leases

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

### 1.21 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. All trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account – provision for impairment of trade receivables, is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, financial reorganisation, and default and delinquency in payments, more than 30 days overdue, are considered indicators that the trade receivable is impaired. The Group also considers the long term history of the debtor. The amount of the impairment allowance is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

### 1.22 Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### 1.23 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised in the statement of comprehensive income.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### 1.24 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### 1.25 Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company and recognised in equity.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

### 1.26 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the year but not distributed at reporting date.

### 1.27 Goods and Service Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods & services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and where receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables in the statement of financial position.

Cash flows are included in the statement of cashflows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### 1.28 Earnings Per Share

#### (a) *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (b) *Diluted earnings per share*

Diluted earnings per share adjusts the figure used in determination of basic earnings per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.29 Segment Reporting

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of Directors and management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the manner in which the product is sold, whether retail or wholesale. Management also considers the business from a geographical perspective and has identified four reportable segments. Discrete financial information about each of these operating businesses is reported to the board of Directors and management team on at least a monthly basis.

The wholesale business is a producer and supplier of pearls within the wholesale market. The retail business is the manufacture and sale of pearl jewellery and related products within the retail market.

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the accounts and in the prior period except as detailed below:

#### *Inter-entity sales*

Inter-entity sales are recognised based on an internally set transfer price. These transactions are eliminated within the internal reports. The revenue from external parties reported to the chief operating decision maker is measured in a manner consistent with that in the statement of comprehensive income.

#### *Biological assets and pearl inventories*

These are recognised at cost within the internal reports.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

### 1.30 Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### 1.31 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the group recognises any non – controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 1.31 Business combinations (Cont.)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurements of all amounts have been reviewed, the difference is recognised directly in profit and loss as a bargain purchase.

Where settlement of any part of cash contribution is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

### 1.32 Parent entity financial information

The financial information for the parent entity, Atlas Pearls and Perfumes Ltd, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below:

#### (i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of Atlas Pearls and Perfumes Ltd.

#### (ii) Share-based payments

The grant by the company of ordinary shares to the employees of subsidiary undertakings in the group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### 1.33 Critical accounting estimates and judgments

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The directors evaluate estimates and judgements 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 Group.

#### *Key estimates – Impairment*

The group assesses impairment at each reporting date by evaluating conditions specific to the group 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 AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### *Critical judgements in applying the entity's accounting policies*

#### *– Doubtful debts provision*

No provision has been recognised in respect of receivables owed to the group for the year ended 31 December 2012 or 2011.

#### *– Impairment of pearl inventories*

There was no impairment as at 31 December 2011 or 31 December 2012.

#### *– Determination of net market value of inventories and biological assets*

Agricultural assets include pearl oysters, both seeded and unseeded and pearls that have been harvested from the oysters which remain unsold. Seeded oysters are measured at their fair value using the net present value of expected future net cash flows attributed to this inventory less the estimated point of sale costs. The fair value of unseeded oysters is determined by reference to market prices for this type of asset in Indonesia. Pearls are measured at their fair value less estimated point of sale costs by reference to market prices for pearls.

Key assumptions that have been used to determine the fair market value of the oysters in 2012 are as follows:

	2012	2011
Average selling price for pearls <sup>1</sup>	¥7,296 per momme	¥5,711 per momme
¥ exchange rate	¥89.02:AUD1.00	¥78.74:AUD1.00
Average pearl size	0.68 momme	0.68 momme
Proportion of market grade pearls	51%	51%
Discount rate applied to cash flow	20%	20%
Mortality & Rejection rates	Historical comparison	Historical comparison
Average unseeded oyster value	\$1.86	\$2.13

1. Average pearl prices are based on historical averages discounted for potential market volatility

Biological assets are valued using estimated future yen rates. Biological assets recognised as current assets on the Statement of Financial Performance represent the estimated value of the pearls to be harvested within the next 12 months. The yen rate used is based on the estimated yen rates for the next 18 months from Commonwealth Bank of Australia.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>2. REVENUE FROM CONTINUING OPERATIONS</b>	<b>2012 \$</b>	<b>2011 \$</b>
Sales revenue		
Sale of goods	<b>11,232,428</b>	12,186,151
Other revenue		
Interest income	<b>916,881</b>	16,753
Other revenues	<b>155,447</b>	147,267
<b>Revenue</b>	<b>12,304,756</b>	12,350,171
Change in net market value of biological assets		
Change in fair value less point of sale costs of oysters	<b>751,169</b>	2,825,138
Gain arising on initial recognition of harvested pearls	-	-
	<b>751,169</b>	2,825,138
Other Income		
Foreign exchange gains realised	<b>703,711</b>	-
Foreign exchange gains unrealised	<b>73,893</b>	-
Gain on financial instruments realised	<b>31,402</b>	-
Gain on financial instruments unrealised	<b>327,777</b>	-
Gain on sale of intangibles	<b>163,629</b>	-
<b>Other income</b>	<b>2,051,581</b>	2,825,138
<b>3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS</b>		
<b>Administration expenses from ordinary activities</b>		
Salaries and wages	<b>2,167,526</b>	2,134,926
Depreciation property, plant and equipment	<b>215,522</b>	121,309
Operating lease rental costs	<b>496,988</b>	410,355
Compliance and finance	<b>471,443</b>	381,216
Other	<b>1,274,484</b>	1,194,802
	<b>4,625,963</b>	4,242,608

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS (Cont.)	2012 \$	2011 \$
<b>Other expenses</b>		
Foreign exchange losses realised	-	316,229
Foreign exchange losses unrealised	-	192,445
Loss on financial instruments realised	-	23,532
Loss on financial instruments unrealised	-	386,503
Provision for employee entitlements	<b>13,314</b>	31,689
Impairment of pearls	<b>3,869,375</b>	1,862,684
Impairment of other assets	-	-
Biological assets (refer note 10)	<b>275,693</b>	144,372
Pearl Inventories (refer note 9)	<b>28,739</b>	-
Share of loss on joint ventures	<b>83,154</b>	-
Other	<b>(7,400)</b>	425,884
	<b>4,262,875</b>	3,383,348
<b>Finance costs</b>		
Interest and finance charges payable	<b>266,541</b>	264,907
	<b>266,541</b>	264,907
<b>Net loss/(profit) on foreign currency derivatives not qualifying as hedges</b>	<b>(359,179)</b>	(410,035)
<b>4. INCOME TAX EXPENSE</b>		
a) The components of tax expense/(benefit) comprise:		
Current tax	<b>(969,597)</b>	164,277
Deferred tax	<b>(797,206)</b>	339,818
	<b>(1,766,803)</b>	504,095
b) Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 14)	<b>(512,393)</b>	(74,745)
(Decrease) increase in deferred tax liabilities (note 14)	<b>(284,813)</b>	414,563
	<b>(797,206)</b>	339,818

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>4. INCOME TAX EXPENSE (CONT.)</b>	<b>2012</b>	2011
	<b>\$</b>	\$
c) Numerical reconciliation of income tax expense to prima facie tax		
Profit/(loss) before income tax expense	<b>(360,653)</b>	1,098,031
Tax at the Australian tax rate of 30%		
Tax effect of amounts which are not deductible in calculating taxable income:	<b>(108,196)</b>	329,409
Non deductible expenses	<b>15,023</b>	7,467
Tax losses not brought to account	<b>100,683</b>	57,882
Sundry items	-	(5,520)
Permanent Differences (Indonesia)	<b>62,951</b>	299,452
Difference in overseas tax rates	<b>(170,280)</b>	(51,050)
Indonesian Tax Refund*	<b>(1,452,530)</b>	-
Income tax under/(over) provided in prior years	<b>(214,454)</b>	(133,545)
Income tax expense/(benefit)	<b>(1,766,803)</b>	504,095
Weighted average effective tax rates	<b>489%</b>	45.9%
Refer note 22 regarding income tax under/(over) provided for prior years for details in relation to double taxation relating to 2007 fiscal period.		
*Refer to note 7 and 35.		
(d) Deferred income tax at 31 December relates to the following:		
Deferred tax liabilities		
Accrued interest	<b>(52)</b>	432
Fair value adjustment on biological assets and agricultural produce	<b>(342,374)</b>	(304,051)
Prepayments	<b>1,164</b>	-
Other	<b>2,147</b>	-
Unrealised foreign exchange gain	<b>54,302</b>	-
Deferred tax assets		
Difference in accounting and tax depreciation	<b>154,450</b>	(3,985)
Accruals	<b>(510)</b>	(2,008)
Provisions	<b>(15,906)</b>	49,652
Unrealised foreign exchange losses	<b>32,549</b>	43,736
Unrealised foreign exchange gains	-	79,411
Other	<b>(653,594)</b>	(203,005)
Tax losses	<b>(29,381)</b>	-
Deferred tax (income)/expense	<b>(797,206)</b>	(339,818)

For details of the franking account, refer to Note 19.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>5. EARNINGS /(LOSS) PER SHARE</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
Basic earnings per share (cents per share)	<b>0.68</b>	0.43
Diluted earnings per share (cents per share)	<b>0.67</b>	0.42
	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>Earnings reconciliation</b>		
Net profit/(loss) used for basic earnings	<b>1,406,150</b>	593,936
After tax effect of dilutive securities	-	-
Diluted earnings/(loss)	<b>1,406,150</b>	593,936
Weighted average number of ordinary shares outstanding during the year used for calculation of basic earnings per share	<b>206,854,705</b>	139,209,330
Adjustments for calculation of diluted earnings per share: Employee Share Plan shares	<b>3,855,060</b>	1,900,000
Weighted average number of potential ordinary shares outstanding during the year used for calculation of diluted earnings per share	<b>210,709,765</b>	141,109,330

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 which may have a dilutive effect on the profit of the Consolidated Group.

Ordinary shares issued to employees under the Employee Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive.

<b>6. CASH AND CASH EQUIVALENTS</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
Cash at bank	<b>2,127,414</b>	409,871
	<b>2,127,414</b>	409,871

**Interest rate risk exposure**

The Group's exposure to interest rate risk is disclosed in note 33. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

**Cash not available for use**

The Group has cash held as a guarantee as part of their obligations under their lease agreement totalling \$104,799 (2011; \$101,523).

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>7. TRADE &amp; OTHER RECEIVABLES</b>	<b>2012</b> \$	2011 \$
CURRENT		
Trade receivables	<b>68,024</b>	75,902
Income tax receivable*	<b>2,336,460</b>	-
Sundry debtors & prepayments	<b>930,770</b>	1,002,507
	<b>3,335,254</b>	1,078,409

\* Includes \$1,452,530 corporate tax refund, VAT refund of \$176,809 from the Indonesian Taxation Authority for 2007 tax overpayment, plus interest charges on overpayment of \$707,121.

**(a) Impaired trade receivables**

There were no impaired trade receivables for the group in 2012 or 2011.

**(b) Past due but not impaired**

As at 31 December 2012, trade receivables of \$16,831, (2011:\$6,625) were past due but not impaired in the Group. Within the Group these relate to a small number of independent customers for whom there is no recent history of default. Given the past history with this customer no impairment has been recognised in the financial period. The ageing analysis of these trade receivables is as follows:

	<b>2012</b> \$	2011 \$
Up to one month	<b>10,196</b>	-
2-3 months	<b>3,397</b>	-
3 months and above	<b>3,238</b>	6,625
	<b>16,831</b>	6,625

The other classes within trade and other receivables do not contain impaired assets other than those disclosed and are not past due.

**(c) Other receivables**

These amounts generally arise from transactions outside the normal operating activities of the group. Collateral is not normally obtained.

**(d) Foreign exchange and interest rate risk**

The Group's exposure to interest rate risk and foreign exchange risk in relation to trade and other receivables is disclosed in note 33.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**7. TRADE AND OTHER RECEIVABLES (Cont.)**

**(e) Fair value and credit risk**

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 33 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

<b>8. DERIVATIVE FINANCIAL INSTRUMENTS – Current</b>	<b>2012</b> \$	<b>2011</b> \$
Forward foreign exchange contracts - assets	<b>181,327</b>	-
Forward foreign exchange contracts - liabilities	-	146,450

**(a) Instruments used by the Group**

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the Groups financial risk policies (refer note 33).

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

The Groups operating expenses mainly consist of materials and services purchased in Indonesian Rupiah. In order to protect against exchange rate movements, the Group had entered into forward exchange contracts to purchase Indonesian Rupiah during the year. In addition the sale of pearls is denominated in Japanese Yen and so the Group has entered into forward exchange contracts and options to sell Japanese Yen and receive Australian Dollars.

See note 1.13 for details of accounting policy in relation to derivatives.

**(b) Risk exposures**

Information about the Group's exposure to credit risk, foreign exchange risk and interest rate risk is provided in note 33.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

<b>9. INVENTORIES</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Pearls – at cost	<b>1,742,005</b>	3,214,124
	<b>1,742,005</b>	3,214,124
Other – at cost		
- Jewellery	<b>2,495,533</b>	2,533,066
- Pearl Meat	<b>4,273</b>	
- Mother of Pearl	<b>98,215</b>	
- Farm Equipment & Fuel	<b>292,883</b>	484,102
	<b>2,890,904</b>	3,017,168
	<b>4,632,909</b>	6,231,292
NON CURRENT		
Nuclei – at cost	<b>176,936</b>	264,865
Total Inventory	<b>4,809,845</b>	6,496,157

Inventories recognised as an expense during the year ended 31 December 2012 amounted to \$28,739 (2011:\$30,081) for the Group. This is included within admin expenses in the Statement of Comprehensive Income. Impairment of pearls occurred when reviewing net realisable value versus cost. The amount of inventories recognised as an expense during the year is \$5,403,943. In addition there was an impairment expense of \$3,869,375 (2011: \$5,665,016 with an impairment expense of \$1,862,684).

<b>10. BIOLOGICAL ASSESTS</b>		
CURRENT		
Oysters – at fair value	<b>7,613,044</b>	6,771,528
NON CURRENT		
Oysters – at fair value	<b>8,821,501</b>	10,679,488
	<b>8,821,501</b>	10,679,488
Total Biological Assets	<b>16,434,545</b>	17,451,016

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 10. BIOLOGICAL ASSETS (CONT.)

In November 2012, Atlas incurred a loss of 19,701 seeded oysters in transport with a total loss incurred of \$121,372. This is the second mortality event from transportation that the Company has experienced. Management believes that similar to the incident experienced in November 2011 when 32,000 seeded oysters died in transport that the incident is due to a toxic substance or algae bloom. Management is implementing procedures to mitigate the risk of this occurring again. During the financial year of 2011 the total impairment expense was \$144,372.

In October 2012, Atlas incurred a loss of 24,024 seeded oysters when what is thought to be a whale, swam into lines at the farm in Alor. The total loss incurred was \$154,321.

The details of the Biological Assets that are held by the Group as at year end are as follows:

Nature:- Oysters (*Pinctada Maxima*)

	2012 No.	2011 No.
Quantity held within the Group operations:-		
Juvenile and mature oysters which are not seeded 362,940	1,557,671	1,086,470
Nucleated oysters 261,393	309,963	835,046
	<b>1,867,634</b>	<b>1,921,516</b>

During the year ended 31 December 2012, the Group harvested approximately 282,949 (2011: 296,180) pearls. A reconciliation of the movement in the fair market value of the oysters during the year is reflected as follows:

	2012 \$	2011 \$
Oysters		
Carrying amount at beginning of the year	17,451,016	13,781,512
Value of new juvenile oysters recognised into stock	1,622,948	2,476,603
Increase in value of stock from change in pearl oyster development	11,321,798	9,458,010
Decrease in value through mortality	(5,171,002)	(5,409,132)
Decrease in value of Agriculture asset from harvest of pearls	(8,305,702)	(5,501,719)
Gain/(Loss) from changes to fair value less estimated point of sale costs	751,169	2,825,138
Exchange adjustment	(1,235,682)	(179,397)
Carrying amount at end of the year	<b>16,434,545</b>	<b>17,451,016</b>

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**10. BIOLOGICAL ASSETS (Cont.)**

Sensitivity analysis

The mark to market estimation of the value of the biological assets (Oysters) is determined using the net present value of expected future net cash flows attributed to this inventory less the estimated point of sale costs. The primary assumptions used for this estimate are shown in Note 1.33. The following table summarises the potential impact of changes in the key non-production related variables:

	Selling Price (¥/momme)		
	-10% ¥6,566 (Sellable Grade) ¥1,510 (Commercial Grade)	No Change ¥7,296 (Sellable Grade) ¥1,677 (Commercial Grade)	+10% ¥8,026 (Sellable Grade) ¥1,845 (Commercial Grade)
Discount rate	Profit \$	Profit \$	Profit \$
22%	(\$2,066,906)	(\$229,043)	\$1,608,820
20%	(\$1,867,967)	-	\$1,867,967
18%	(\$1,661,801)	\$237,399	\$2,136,599

	Selling Price (¥/momme)		
	-10% ¥6,566 (Sellable Grade) ¥1,510 (Commercial Grade)	No Change ¥7,296 (Sellable Grade) ¥1,677 (Commercial Grade)	+10% ¥8,026 (Sellable Grade) ¥1,845 (Commercial Grade)
FX rate	Profit \$	Profit \$	Profit \$
¥97.92	(\$3,430,372)	(\$1,736,005)	(\$41,639)
¥89.02	(\$1,867,967)	-	\$1,867,967
¥80.12	\$51,252	\$2,132,466	\$4,213,680

The Group is exposed to financial risk in respect of its involvement in primary production which consists of the breeding and rearing of oysters for the purpose of producing pearls. The primary financial risk associated with this activity occurs due to the length of time between the expenditure of cash in relation to the operation of the farm and the harvesting of the pearls and realisation of cash receipts from the sales to third parties. The Group ensures that it maintains sufficient working capital to ensure that it can sustain its operation through any delays in cash flow that may be reasonably foreseen.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		<b>2012</b>	2011
		<b>\$</b>	<b>\$</b>
(a)	Non-Pearling Assets		
	Plant and equipment		
	- at cost	<b>865,893</b>	826,166
	- accumulated depreciation	<b>(308,068)</b>	(191,174)
		<b>557,825</b>	634,992
	Leasehold improvements		
	- at cost	<b>909,273</b>	879,462
	- accumulated depreciation	<b>(206,875)</b>	(146,488)
		<b>702,398</b>	732,974
	Total non-pearling assets	<b>1,260,223</b>	1,367,966
(b)	Pearling project		
	Land (leasehold and freehold) and buildings		
	- at cost	<b>962,254</b>	1,305,668
	- accumulated depreciation	<b>(165,281)</b>	(585,893)
		<b>796,973</b>	719,775
	Plant and equipment, vessels, vehicles		
	- at cost	<b>4,362,779</b>	5,392,885
	- accumulated depreciation	<b>(2,379,227)</b>	(3,473,226)
		<b>1,983,552</b>	1,919,659
	Total pearling project	<b>2,780,525</b>	2,639,434
	Total property, plant and equipment	<b>4,040,748</b>	4,007,400

Included in Pearling project land (leasehold and freehold) and buildings is \$100,368 (2011 - \$95,566) which represents construction of buildings in progress at cost.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
Reconciliation of the carrying amount for each class of property, plant and equipment are set out below:			
(a)	Non-Pearling Assets		
	Plant and equipment		
	Carrying amount at beginning of the year	<b>634,992</b>	48,670
	Additions	<b>46,369</b>	592,346
	Reclassifications /Disposals	-	66,520
	Foreign exchange movement	<b>3,420</b>	(21)
	Depreciation	<b>(126,956)</b>	(72,523)
	Carrying amount at end of the year	<b>557,825</b>	634,992
	Leasehold Improvements		
	Carrying amount at beginning of the year	<b>732,974</b>	-
	Additions	<b>48,832</b>	666,195
	Foreign exchange movement	<b>(9,754)</b>	-
	Reclassifications/Disposals	-	91,058
	Depreciation	<b>(69,654)</b>	(24,279)
	Carrying amount at end of the year	<b>702,398</b>	732,974
(b)	Pearling project		
	Leasehold land and buildings		
	Carrying amount at beginning of the year	<b>719,775</b>	773,820
	Additions	<b>174,831</b>	133,797
	Acquisition of pearling operation	-	-
	Disposals/reclassifications	<b>(7,943)</b>	(145,828)
	Depreciation	<b>(34,618)</b>	(30,644)
	Foreign exchange movement	<b>(55,072)</b>	(11,369)
	Carrying amount at end of the year	<b>796,973</b>	719,775
(c)	Plant and equipment, vessels, vehicles		
	Carrying amount at beginning of the year	<b>1,919,659</b>	1,394,666
	Additions	<b>619,351</b>	996,796
	Acquisition of pearling operation	-	-
	Disposals / reclassifications	-	(80,402)
	Depreciation	<b>(413,121)</b>	(364,288)
	Foreign exchange movement	<b>(142,337)</b>	(27,112)
	Carrying amount at end of the year	<b>1,983,552</b>	1,919,659
	Total Carrying amount	<b>4,040,748</b>	4,007,400

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 11. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Reconciliation of depreciation to the income statement:

	2012 \$	2011 \$
Depreciation charge (Note 11)	<b>(644,349)</b>	(491,734)
Capitalised depreciation charge	<b>428,827</b>	370,425
	<b>(215,522)</b>	(121,309)
Depreciation charge (Note 3)	<b>(215,522)</b>	(121,309)
Balance	-	-

Refer note 33 for information on non-current assets pledged as security by the Group.

### 12. TRADE AND OTHER PAYABLES

#### CURRENT

Trade payables	<b>255,291</b>	959,910
ESSP accrual*	<b>79,500</b>	-
Other payables and accrued expenses	<b>1,814,171</b>	1,407,842
	<b>2,148,962</b>	2,367,752

\* \$56,000 of the ESSP accrual above is for shares salary sacrificed by Stephen Birkbeck (\$50,000) and his daughter Kristie Birkbeck (\$6,000) during the year ended 31 December 2012 under the Atlas South Sea Pearl Employee Share Plan.

#### (a) Amounts not expected to be settled within the next 12 months

Other payables includes accruals for annual leave of \$1,125,964 and \$804,841 in the consolidated entity for 2012 and 2011 respectively. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. All amounts are expected to be settled within the next 12 months.

#### (b) Risk Exposure

Information about the Groups exposure to foreign exchange risk is provided in note 33.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

<b>13. BORROWINGS</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
<b>Secured</b>		
Bank loan	4,303,195	4,868,227
Other bank loan	95,400	83,333
Lease liabilities	121,951	106,818
Total secured current borrowings	<u>4,520,546</u>	<u>5,058,378</u>
<b>Unsecured</b>		
Other	234,497	268,711
<b>Total current borrowings</b>	<u>4,755,043</u>	<u>5,327,089</u>
<b>NON CURRENT</b>		
<b>Secured</b>		
Bank loan	-	-
Other bank loan	70,470	160,497
Lease liabilities	110,409	232,900
Total secured non current borrowings	<u>180,879</u>	<u>393,397</u>
<b>Unsecured</b>		
Other	-	-
<b>Total non current borrowings</b>	<u>180,879</u>	<u>393,397</u>

**(a) Security and fair value disclosure**

Information about the security relating to secured liabilities and the fair value is provided in note 33.

**(b) Risk Exposure**

Information about the Group's exposure to risks arising from borrowings is provided in note 33.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>14. TAX</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>(a) Liabilities</b>		
CURRENT		
Income tax payable	<b>368,091</b>	74,417
NON-CURRENT		
Deferred tax liabilities comprises temporary differences attributable to -		
Agricultural and biological assets at fair value	<b>1,865,336</b>	2,207,710
Prepayments	<b>2,147</b>	-
Accrued interest income	-	52
Other	<b>1,164</b>	-
Unrealised foreign exchange gains	<b>61,596</b>	7,294
Total deferred tax liabilities	<b>1,930,243</b>	2,215,056
<b>(b) Assets</b>		
Deferred tax assets comprises temporary differences attributable to -		
Tax allowances relating to property, plant & equipment	<b>(89,681)</b>	64,769
Agricultural and biological assets at fair value	<b>914,190</b>	263,442
Accruals	<b>17,850</b>	17,340
Provisions	<b>298,888</b>	282,982
Impairment of assets	-	-
Unrealised foreign exchange losses	<b>13,266</b>	45,815
Other	<b>11,750</b>	8,904
	<b>1,166,263</b>	683,252
Tax losses recognised	<b>734,656</b>	705,275
Total deferred tax assets	<b>1,900,919</b>	1,388,527

The Company believes that the deferred tax asset relating to tax losses recognised is available to be carried forward based upon the Company's projections of future taxable amounts.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>14. TAX (Cont.)</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
<b>(c) Reconciliations</b>		
The overall movement in deferred tax account is as follows:		
Opening balance	<b>(826,529)</b>	(486,711)
(Charge)/credit to statement of comprehensive income	<b>797,206</b>	(339,818)
Other movements	-	-
Closing balance	<b>(29,323)</b>	(826,529)

<b>15. PROVISIONS</b>		
CURRENT		
Employee benefits	<b>1,805</b>	23,399
Total current provisions	<b>1,805</b>	23,399
Number of employees	<b>840</b>	855

Employee benefits provisions have been recognised in relation to long service leave for Australian and expatriate employees. The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The amount presented as non-current represents amounts where an agreement is in place to pay the entitlements over a period of time longer than the next 12 months.

Reconciliation of provisions:

Balance at beginning of year	<b>23,399</b>	49,057
Provision used	<b>(21,594)</b>	(36,094)
Unused provisions reversed	-	-
Provisions added	-	10,436
Closing balance	<b>1,805</b>	23,399

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>16. CONTRIBUTED EQUITY</b>	<b>2012</b> No. of shares	2011 No. of shares	<b>2012</b> \$	<b>2011</b> \$
Issued and fully paid-up capital	<b>229,171,072</b>	140,958,097	<b>27,610,085</b>	23,287,552
<b>Ordinary Shares</b>				
Balance at beginning of year	<b>140,958,097</b>	134,458,097	<b>23,287,552</b>	22,512,922
Shares issued <sup>(1)(2)(3)(4)(5)(6)</sup>	<b>88,212,975</b>	6,500,000	<b>4,322,533</b>	774,630
Balance at end of year	<b>229,171,072</b>	140,958,097	<b>27,610,085</b>	23,287,552
<b>Treasury Shares</b>				
Balance at beginning of year	<b>1,900,000</b>	1,900,000		
Acquisition of shares by Trust under Plan <sup>(7)</sup>	<b>6,064,000</b>	-		
Balance at end of year	<b>7,964,000</b>	1,900,000		

- On 26 March 2012 the Company issued fully paid ordinary shares in the capital of the Company at an issue price of \$0.05 each. A total of 76,347,420 shares were issued as part of a rights issue. The total amount raised after associated costs was \$3,817,371. The shares rank equally with the Company's existing issued shares.
- On 29 March 2012, 2,000,000 shares were issued at an issue price of \$0.05 each to sophisticated investors as part of the rights issue shortfall.
- On 4 April 2012, 2,843,000 shares were issued at an issue price of \$0.05 each to sophisticated investors as part of the rights issue shortfall.
- On 8 June 2012, 2,500,000 shares were issued at an issue price of \$0.05 each to sophisticated investors as part of the rights issue shortfall.
- On 8 June 2012, 2,843,755 fully paid ordinary shares were issued to Executive Chairman Stephen Birkbeck as a part placement of the shortfall in shares from the Non-Renounceable Rights Issue. The shares were issued at 5 cents per share. The total value of the shares issued was \$151,353.15. 1,833,080 shares with a total value of \$100,819.40 were issued to Mr Birkbeck and his related entities in lieu of outstanding debts totalling \$91,654 owed to Mr Birkbeck and his related entities for director and consultancy services provided to the Group. Loss of \$9,165 was recognised in the Statement of Comprehensive Income for settlement of the debt. A further 344,800 shares were issued to Jan Jorgensen and an employee for past services. These shares were required to be valued at grant date at which point the share price was 5.5 cents per share. 1,010,675 shares with a total value of \$50,533.75 were taken up by Mr Birkbeck and were settled in cash.
- On 26 June 2012 828,000 shares were issued at an issue price of \$0.05 to Directors of the Company under the Non-Executive Director Fee Sacrifice Share Plan as approved at the Annual General Meeting on 30 May 2012. Joseph Taylor received 180,000 shares with a fair value of \$9,900, Geoffery Newman received 648,000 shares with a fair value of \$35,640. Total shares issued to directors during the period under the NED Fee Sacrifice Share Plan is 828,000 for a fair value of \$73,370. These shares have been

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 16. CONTRIBUTED EQUITY (Cont.)

vested under the plan and have been issued to the Non-Executive Directors of past services. Simon Adams, as an employee, received 506,000 shares with a fair value of \$27,830 for past services.

7. On 4 September 2012, 6,064,000 shares were issued at an issue price of \$0.05 to The Atlas Employee Share Plan Trust. Under the Employee Salary Sacrifice Share Plan, 5,814,000 shares were approved at the Annual General Meeting on 30 May 2012 including; Executive Chairman Stephen Birkbeck who was entitled to 1,000,000.

#### (ii) Rights

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders (where applicable) and creditors and are fully entitled to any proceeds of liquidation in proportion to the number of shares held.

Treasury shares are shares in Atlas Pearls and Perfumes Ltd that are held by the Atlas South Sea Pearl Limited Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee Share Plan.

#### (iii) Share Buyback

The share buy-back has been terminated as at the date of this report and no shares had been bought back during the financial year 2012 or 2011.

#### (iv) Capital Risk Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group has no external requirements imposed upon it in relation to capital structure except those noted in note 33 as part of the covenants relating to the financing arrangements with Commonwealth Bank and has no set gearing ratios upon which to monitor its capital.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>17. RESERVES</b>	<b>2012</b>	2011
	<b>\$</b>	\$
Foreign Currency Translation Reserve	<b>(9,047,651)</b>	(7,251,866)
Employee Share Reserve	<b>581,029</b>	581,029
Total Reserves	<b>(8,466,622)</b>	(6,670,837)
Movements :		
Foreign Currency Translation Reserve -		
Balance at beginning of year	<b>(7,251,866)</b>	(7,149,381)
Currency translation differences arising during the year	<b>(1,795,785)</b>	(102,485)
Balance at end of year	<b>(9,047,651)</b>	(7,251,866)
The foreign currency translation reserve records exchange differences arising on translation of foreign controlled subsidiaries to the reporting currency.		
Employee Share Reserve -		
Balance at beginning of year	<b>581,029</b>	581,029
Movement in Employee Share Reserve	-	-
Balance at end of year	<b>581,029</b>	581,029
The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments.		

<b>18. RETAINED PROFITS/(ACCUMULATED LOSSES)</b>	<b>2012</b>	2011
	<b>\$</b>	\$
Reconciliation of retained earnings/(Accumulated losses) :		
Balance at beginning of year	<b>3,667,105</b>	3,073,169
Net profit/(loss) for the year	<b>1,406,150</b>	593,936
Movement in equity distribution account	-	-
Dividends paid	-	-
Balance at end of year	<b>5,073,255</b>	3,667,105

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 19. DIVIDENDS

No dividends have been paid or declared in respect of the 2012 or 2011 financial year.

	<b>2012</b>	2011
	<b>\$</b>	\$
Dividend Franking Account		
Franking credits available to shareholders of the Company for subsequent financial years based on a tax rate of 30%.	<b>1,278,704</b>	1,278,704

The above amounts represent the balance of the franking account as at the end of the financial year adjusted for:

- (i) Franking credits that will arise from the payment of the amount of the provision for income tax;
- (ii) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (iii) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

### 20. OPTIONS

Atlas Pearls and Perfumes Ltd undertook a Rights Issue which closed on 18<sup>th</sup> of January 2013. The Company has issued 30,240,735 shares at a price of five (5) cents per share and 30,240,735 free attaching options. Allotment and issue of the 30,240,735 shares and options occurred on the 29<sup>th</sup> January 2013, with a dispatch of holding statements and options certificates on the same day.

### 21. COMMITMENTS

	<b>2012</b>	<b>2011</b>
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	<b>313,321</b>	300,635
Later than one year, but not later than five years	<b>1,815,717</b>	1,742,202
Later than five years	<b>998,372</b>	1,114,879
	<b>3,127,410</b>	3,157,716

#### *Non - cancellable operating leases*

The Group leases premises under non-cancellable operating leases expiring in 9 years. On renewal the terms of the leases are renegotiated.

There are no capital commitments in place in relation to the acquisition of property, plant and equipment. Fixed assets are replaced in the normal course of business operations and the company does not anticipate any material capital outlay for such replacement costs in the coming year.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 22. CONTINGENCIES

The 2008 tax audit for PT Cendana Indopearls was completed subsequently to reporting date, and a liability in the order of IDR 3,504,206,185 or AUD\$350,000 has been assessed by the Indonesian Tax Office. PT Cendana Indopearls are in agreement with an amount in the order of AUD\$50,000 and plan to dispute the balance of AUD \$300,000 via an appeal process.

Amounts totalling approximately AUD \$180,000 are in dispute with the Indonesian Tax Office for deductions made from the 2007 Income Tax Refund.

PT Cendana Indopearls has received a non-binding offer of USD \$140,000 from AXA Hong Kong in relation to a shipping incident which resulted in total loss of its vessel KM Teguh Prima. PT Cendana Indopearls accepted this non-binding offer of USD\$140,000 on 20th March 2013.

### 23. SHARE BASED PAYMENTS

In May 2006, an employee share plan was established which entitles the Board of Directors to offer shares to key management personnel within the Group. A total of 1,100,000 shares were issued during 2007 to six (6) employees including the managing director at a price of 40 cents per share which was a one (1) cent and eight (8) cent discount to the market at the dates of issue being 17<sup>th</sup> April 2007 and 10<sup>th</sup> May 2007 respectively. An interest free, non-recourse loan was provided to the key management staff to pay for these shares. This loan will be repaid by the employees from the proceeds of dividends that they are entitled to from the ownership of the shares. 50% of the shares vested to the employees after two (2) years employment from the time of issuing the shares and the remaining 50% vested to the employees after they have completed three (3) years of employment from the time of issuing the shares. Employees are only entitled to the shares if the loan is repaid in full.

1,900,000 shares remain on issue as at 31 December 2012 with debt of \$428,500 outstanding by employees from the initial loan of \$1,063,500 that was made when the shares were allocated to employees. Refer note 25 for details of equity held and loans outstanding to Key Management Personnel.

Shares issued to the employees are acquired and held in trust for the employees. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements.

The fair value of shares issued under the scheme is independently determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the share, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the share.

The shares rank equally with other fully paid ordinary shares.

Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.16.

At the company's annual general meeting in May 2007, shareholders approved the allocation of a maximum of 4,000,000 shares to senior executives under the employee share plan within three years of the approval of the plan. No shares were issued in the current year under this allocation.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 23. SHARE BASED PAYMENTS (CONT.)

There were no shares issued under the plan in 2011. In 2012 the plan was replaced with a new Employee Salary Sacrifice Share Plan and Non-Executive Director Fee Salary Sacrifice Share Plan.

	<b>2012 Number</b>	2011 Number
Number of shares on issue under the 2006 employee share plan	<b>1,900,000</b>	1,900,000
Number of shares on issue under the 2012 Non-Executive Director Plan	<b>828,000</b>	-
2012 Non-Executive Director Plan and Employee Share Plan (Issued to Trust)	<b>6,064,000</b>	-
	<b>8,792,000</b>	1,900,000

At the AGM on the 30 May 2012 it was resolved to cease issuing Shares under this existing Employee Share Loan Plan that was approved by Shareholders at the Company's annual general meeting in May 2006.

This existing Employee Share Loan Plan was replaced by a new Employee Salary Sacrifice Share Plan and Non-Executive Director Plan at the AGM on the 30 May 2012.

#### **The Atlas Employee Salary Sacrifice Share Plan**

On 30 May 2012, the Atlas Employee Salary Sacrifice Share Plan was established. On the 29<sup>th</sup> of June 2012 506,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.055 per share. Also, on the 4<sup>th</sup> of September 2012 5,814,000 shares were issued into the Atlas South Sea Pearl Limited Employee Share Trust at \$0.05 per share.

Under the Salary Sacrifice Plan, the Company agrees to issue Shares to Eligible Employees, in lieu of the amount of remuneration that each Eligible Employee has agreed to sacrifice from their monthly remuneration.

To participate in the Salary Sacrifice Plan, Eligible Employees are required to salary sacrifice a minimum of 10% of their annual base salary into Shares. There is no maximum percentage or value cap to the amount that each Eligible Employee can sacrifice.

The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30<sup>th</sup> of May 2012, the issue price per Share is 5 cents.

The Employee Share Plan is open to Eligible Participants being any Eligible Employee; or conditional upon the company obtaining any necessary ASIC relief to extend the operation of ASIC Class Order 03/184 (or similar class order) to them:

- (i) any Eligible Contractor; or
- (ii) Eligible Casual Employee,

Who is declared by the Board to be an Eligible Participant for the purposes of the Plan.

An Eligible Employee means: a full time or part time employee (including an executive director) of a Group Company.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

An Eligible Contractor means:

- (a) An individual that has:
  - (i) Performed work for a Group Company, for more than 12 months; and
  - (ii) Received 80% or more of their income in the preceding year from a Group Company; or
- (b) A company where each of the following are satisfied in relation to the company:
  - (i) Throughout the previous 12 months the company has had a contract in place with a Group Company, for the provision of the services of an individual (contracting individual) to a Group Company;
  - (ii) The contracting individual has performed work for a Group Company, for more than 12 months;
  - (iii) The contracting individual has been the only member for the company for more than 12 months; and;
  - (iv) More than 80% of the aggregate income of the company and the contracting individual from all sources (other than from each other) in the preceding 12 months was received from a Group Company.

The Board may determine the terms and conditions of the Salary Sacrifice arrangement for which Shares are offered in lieu of that Remuneration.

The number of Shares to be issued, transferred or allocated to the Trustee to be held on behalf of a Participant will be the dollar amount of the Salary Sacrifice divided by the issue price per Share outlined in the Invitation. In the case of fractional entitlements, the number of Shares to be issued, transferred or allocated to the Trustee to be held on behalf of a Participant will be rounded up to the nearest whole Share, unless otherwise determined by the Board from time to time.

Shares to be acquired by Eligible Participants under the Salary Sacrifice plan are held in the trust until such time that the Shares are fully paid for. Shares held by the trust and not yet issued to employees at the end of the reporting period are shown as treasury shares in the financial statements. As at 31 December 2012 none of the 5,814,000 shares issued to the Atlas South Sea Pearl Limited Employee Share Trust had been issued to Eligible Participants.

The shares rank equally with other fully paid ordinary shares.

Where shares are issued to employees of subsidiaries of the Group, the transactions are treated in accordance with the accounting policy at note 1.16.

### **The Atlas Non-Executive Director Fee Sacrifice Share Plan**

On the 26 June 2012 828,000 shares were issued into the Atlas South Sea Pearl Limited Non-Executive Director Trust at \$0.05 per share. A further 250,000 shares were issued on the 4 September 2012 into the Atlas South Sea Pearl Limited Non-Executive Director Trust at \$0.05 per share. As at 31 December 2012 none of the 250,000 shares issued to the NED trust have been issued to eligible participants.

The Non-Executive Director Salary Sacrifice Share Plan is open to Eligible Participants, being any Non-Executive Director who is declared by the Board to be an Eligible Participant for the purpose of the Plan.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The Company's Non-Executive Directors will receive a portion of their Director's fee in the form of Shares

The Company agrees to issue or procure the transfer of Shares to eligible Non-Executive Directors, in lieu of the amount of Directors' fees that each eligible Non-Executive Director has agreed to sacrifice from their monthly Directors' fees each financial year.

The issue price for Shares under the Salary Sacrifice Plan will be determined from time to time by the Board of Directors (in their discretion). For the participants who entered into conditional salary sacrifice arrangements before the AGM on the 30<sup>th</sup> of May 2012, the issue price per Share is 5 cents.

Total shares issued to directors during the period under the NED fee sacrifice share plan is \$828,000 for a fair value of \$45,540.

### Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	<b>2012</b> \$	2011 \$
Shares issued under the employee share plan	-	-
	<hr/>	<hr/>
	-	-

## 24. NOTES TO THE CASH FLOW STATEMENT

### 24.1 Reconciliation of cash

For the purposes of the cash flow statement, cash includes cash on hand and in banks, and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cashflows is reconciled to the related items in the Statement of Financial Performance as follows:-

	<b>2012</b> \$	2011 \$
Cash at bank (Note 6)	<b>2,127,414</b>	409,871
Balances per statement of cashflows	<b>2,127,414</b>	409,871

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>24.2 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities</b>	<b>2012 \$</b>	2011 \$
Profit/(loss) after income tax	<b>1,406,150</b>	593,936
Inventories	<b>(2,204,496)</b>	(3,792,956)
Increase/(decrease) in interest accrual	<b>(6,531)</b>	(789)
Non cash changes in debtors, prepayments and creditors	<b>(1,287,185)</b>	1,770,227
Provision for depreciation	<b>644,349</b>	491,734
Provision for impairment	<b>304,432</b>	144,372
Provision for employee entitlements	<b>321,123</b>	121,015
Share Based Remuneration	<b>395,534</b>	-
(Profit)/loss on disposal of fixed assets	-	-
(Increase)/decrease in value of financial assets	<b>(327,777)</b>	386,503
(Increase)/decrease in fair value of biological assets	<b>3,118,204</b>	(962,454)
Increase/(decrease) in taxes payable	<b>(2,667,749)</b>	371,789
Net cash provided by/(used in) operating activities	<b>(303,946)</b>	(876,622)

As at the date of this report the Company has not entered into any non-cash financing or investing activities except as follows:

During the year ended 31 December 2012, the Company did not enter any new loans to acquire property, plant and equipment (2011: \$336,503).

**24.3 Credit facilities**

As at 31 December 2012, the Company had in place a loan facility with the Commonwealth Bank with a limit of \$5,000,000. This facility has been utilised, see note 33 for further disclosure. Information about the security relating to secured liabilities and the fair value is provided in note 33.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

<b>25. KEY MANAGEMENT PERSONNEL DISCLOSURE</b>	<b>2012</b>	2011
	<b>\$</b>	<b>\$</b>
a Key management personnel compensation -		
Short-term employment benefits	<b>1,027,299</b>	1,034,209
Post-employment benefits	<b>77,287</b>	65,714
Long-term benefits	<b>21,595</b>	10,436
	<b>1,126,181</b>	1,110,359

Detailed remuneration disclosures are provided in section 4.2 of the remuneration report on pages 25 to 34.

b Equity instrument disclosures relating to key management personnel

(i) Options and rights granted as compensation

No options were issued to key management personnel as remuneration in 2012 or 2011.

(ii) Option holdings

There were no options on issue to key management personnel during 2012 or 2011.

c Loans to key management personnel

Details of loans made to directors of the company and other key management personnel of the Group under the Employee Salary Sacrifice Plan, including their personally related parties, are set out below.

(i) Aggregates for key management personnel

	<b>Balance at the start of the year</b>	<b>Loans provided during the year</b>	<b>Interest paid and payable for the year</b>	<b>Interest not charged</b>	<b>Balance at the end of the year</b>	<b>No in Group at the end of the year</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Group						
2012	375,000	-	-	11,250	375,000	2
2011	375,000	-	-	24,207	375,000	2

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**25. KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)**

Individuals with loans above \$100,000 during the financial year

<b>2012</b>	<b>Balance at the start of the year</b>	<b>Loans provided during the year</b>	<b>Interest paid and payable for the year</b>	<b>Interest not charged</b>	<b>Balance at the end of the year</b>	<b>Highest indebtedness during the year</b>
Name	\$	\$	\$	\$	\$	\$
J. Taylor	263,000	-	-	7,890	263,000	263,000
S. Adams	112,000	-	-	3,360	112,000	112,000
	375,000	-	-	11,250	375,000	375,000

<b>2011</b>	<b>Balance at the start of the year</b>	<b>Loans provided during the year</b>	<b>Interest paid and payable for the year</b>	<b>Interest not charged</b>	<b>Balance at the end of the year</b>	<b>Highest indebtedness during the year</b>
Name	\$	\$	\$	\$	\$	\$
J. Taylor	263,000	-	-	17,095	263,000	263,000
S. Adams	112,000	-	-	7,112	112,000	112,000
	375,000	-	-	24,207	375,000	375,000

All loans to key management persons are under terms and conditions as set out in note 23 relating to the employee share plan.

The amounts shown for interest not charged in the tables above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arms length basis.

d. Shareholdings

The number of shares in the company held during the financial year by each director of the company and the other key management personnel of the Group, including their personally related parties, are set out below.

Details of shares that were granted as compensation during the reporting period are provided at note 23 and in the Remuneration Report contained at section 5 of the Directors' Report.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)

	Balance 1/1/12	Options Exercised	Other Changes <sup>(1)</sup>	Balance 31/12/12
<b>Parent Entity Directors</b>				
Mr S.P. Birkbeck	17,155,581	-	12,935,274	30,090,855
Mr J.J.U. Taylor	1,220,000	-	180,000	1,400,000
Mr S.C.B. Adams (2)	666,666	-	766,000	1,432,666
Mr G. Newman	400,000	-	883,295	1,283,295
<b>Other key management personnel</b>				
Mr J. Jorgensen	2,000	-	122,400	124,400
Mr S. Gleeson	-	-	2,500,000	2,500,000
Mr J. Folan	-	-	-	-
Mr C. Triefus	775,000	-	100,000	875,000
	<b>20,219,247</b>	<b>-</b>	<b>17,486,969</b>	<b>37,706,216</b>

(1) Other changes refers to shares purchased or sold during the financial year or removal of balance on resignation of directors

(2) This reflects the number of shares held upon resignation

	Balance 1/1/11	Granted as compensation	Options Exercised	Other Changes <sup>(1)</sup>	Balance 31/12/11
<b>Parent Entity Directors</b>					
Mr S.P. Birkbeck	15,755,055	-	-	1,400,526	17,155,581
Mr J.J.U. Taylor	1,220,000	-	-	-	1,220,000
Mr S.C.B. Adams	666,666	-	-	-	666,666
Mr G. Newman	400,000	-	-	-	400,000
<b>Other key management personnel</b>					
Mr J. Jorgensen	2,000	-	-	-	2,000
Mr S. Gleeson	-	-	-	-	-
Mr J. Folan	-	-	-	-	-
wMr C. Triefus	-	-	-	-	775,000
	<b>18,043,721</b>	<b>-</b>	<b>-</b>	<b>1,400,526</b>	<b>20,219,247</b>

(1) Other changes refers to shares purchased or sold during the financial year

(2) Director retired or resigned in the financial year

(3) Director appointed in the financial year

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**25. KEY MANAGEMENT PERSONNEL DISCLOSURE (CONT.)**

(e) Other transactions

Key management personnel

- i. Mr S Birkbeck was appointed as Chief Executive Officer on 16 January 2012. Prior to this date Mr Birkbeck was engaged by Atlas to provide marketing and technical consultancy. For the period up until his active engagement as Chief Executive Officer, Mr Birkbeck received \$30,000 in consultancy fees. In April 2012 he received an additional \$13,000 in his consultancy fees for additional work performed on Pearl Extraction.
- ii. During the 2011 financial year end payments were made in the year for additional marketing and technical consultancy undertaken by Mr S Birkbeck totalling \$23,750 under normal commercial terms.
- iii. During the 2012 financial year J Taylor salary sacrificed \$9,000, and G Newman sacrificed \$32,400 for shares, as part of the Non Executive Director Fee Salary Sacrifice Share plan. S Birkbeck salary sacrificed \$50,000, J Jorgensen sacrificed \$25,000, and C Triefus sacrificed \$17,000 for shares as part of the Employee Fee Salary Sacrifice Share plan.
- iv. Satisfaction of liability due to the Key Management Personnel by way of shares. Refer Note 16(5).

During the year, sales of individual pearls of small quantities were made to some staff and Directors on normal commercial terms.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group are:

	<b>2012</b>	2011
	<b>\$</b>	\$
<b>Amounts recognised as expense</b>		
Research and development	<b>13,000</b>	18,750
Marketing consultancy	<b>30,000</b>	5,000
	<hr/>	<hr/>
<b>Amounts recognised as liability</b>		
Payables	-	96,450
	<hr/>	<hr/>

**26. RELATED PARTY TRANSACTIONS**

i Subsidiaries

Interests in subsidiaries are set out in note 29.

The Company purchased pearls to the value of \$7,171,599 (2011 - \$8,634,584) from its wholly owned controlled subsidiary PT Cendana Indopearls. These transactions are in the normal course of business.

No provisions for doubtful debts have been raised in relation to any outstanding balances during 2012 or 2011, and no expense has been recognised in respect of bad and doubtful debts due from related parties. Interests in subsidiaries are set out in note 29.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

### 26. RELATED PARTY TRANSACTIONS (CONT.)

#### ii. Joint venture

World Senses Pty Ltd was formed on the 29th November 2012 as a joint venture between Nomad Two Worlds Global Trading Pte Ltd and Atlas Pearls and Perfumes Ltd. On that same date, Atlas sold its Pearl Infusion IP into World Senses Pty Ltd in exchange for equity in the company. The agreed selling price for this Infusion IP was \$600,000. The book value of the technology on the 29 November 2012 was \$275,841. This created a gain on sale of \$324,159, of which only 50% was able to be recognised by Atlas; namely \$162,080.

At 31 December 2012, there is loan balance of \$64,698 owing from World Senses to Atlas. This balance consists of salary and administration recharges of \$87,989, pearl jewellery and loose pearls sold to World Senses for \$57,437, freight recharges of \$2,385 and other operating expenditure paid for by Atlas on behalf of World Senses totalling \$16,886. These charges were then offset by an outstanding contribution of \$100,000 owing from Atlas to World Senses.

At 31 December 2012, there is loan balance of \$63,118 owing from World Senses to Perl'Eco. This balance consists of pearl jewellery sold to World Senses for \$76,100 in 2012. This is offset by a balance of \$12,982 which relates to a World Senses owned jewellery item sold by Perl'Eco.

No provisions for doubtful debts have been raised in relation to any outstanding balances during 2012 or 2011, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

**27. REMUNERATION OF AUDITORS**

During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2012 \$	2011 \$
<b>a. BDO Australia</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	<b>82,007</b>	83,812
Total remuneration for audit and other assurance services	<b>82,007</b>	83,812
<i>Taxation Services</i>		
Tax compliance services and advise	<b>54,119</b>	26,011
Total remuneration for taxation services	<b>54,119</b>	26,011
<b>b. Related practices of BDO Australia</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	<b>30,917</b>	32,260
Total remuneration for audit and other assurance services	<b>30,917</b>	32,260
<i>Taxation Services</i>		
Tax compliance services and advise	-	1,356
Total remuneration for taxation services	-	1,356
Total remuneration of related practices of BDO Australia	<b>30,917</b>	33,616
<b>Total remuneration of BDO Australia and related practices</b>	<b>167,043</b>	143,439
Total remuneration of BDO Australia	<b>136,126</b>	109,823

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

**28. SEGMENT REPORTING**

**(a) Segment information provided to the Board of Directors and management team**

- (i) The segment information provided to the Board of Directors and management team for the reportable segments for the year ended 31 December 2012 is as follows:

2012	Wholesale Loose Pearl		Jewellery		All other segments	Total
	Australia	Indonesia	Australia	Indonesia		
	\$	\$	\$	\$		
Total segment revenue	9,037,383	7,435,048	796,131	1,135,233	-	<b>18,403,795</b>
Inter-segment revenue	-	(7,171,367)	-	-	-	<b>(7,171,367)</b>
<b>Revenue from external customers</b>	<b>9,037,383</b>	<b>263,681</b>	<b>796,131</b>	<b>1,135,233</b>	-	<b>11,232,428</b>
<b>Normalised EBITDA</b>	<b>(281,836)</b>	<b>2,835,128</b>	<b>(263,153)</b>	<b>(647,584)</b>	-	<b>1,642,554</b>
<b>Adjusted net operating profit/(loss) before income tax</b>	<b>(661,678)</b>	<b>3,404,437</b>	<b>(309,263)</b>	<b>(694,932)</b>	-	<b>1,738,563</b>
Depreciation and amortisation	109,713	18,638	39,218	47,953	-	<b>215,523</b>
Revaluation of Biological Assets	2,375,016	1,700,212	-	-	-	4,075,228
<b>Totals segment assets</b>	<b>6,450,385</b>	<b>19,093,198</b>	<b>1,445,489</b>	<b>2,285,023</b>	-	<b>29,274,096</b>
Total assets includes:						
Additions to non – current assets (other than financial assets or deferred tax)	30,354	794,183	2,246	62,601	-	<b>889,384</b>
<b>Total segment liabilities</b>	<b>702,112</b>	<b>1,141,771</b>	<b>104,542</b>	<b>199,606</b>	-	<b>2,148,032</b>

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$275,693 in relation to the impairment of oysters.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. SEGMENT REPORTING (CONT.)

- (ii) The segment information provided to the Board of Directors and management team for the reportable segments for the year ended 31 December 2011 is as follows:

2011	Wholesale Loose Pearl		Jewellery		All other segments	Total
	Australia	Indonesia	Australia	Indonesia		
	\$	\$	\$	\$		
Total segment revenue	10,666,441	8,638,578	505,170	1,376,013	-	<b>21,186,203</b>
Inter-segment revenue	(150,256)	(8,638,578)	(407,412)	(165,416)	-	<b>(9,361,662)</b>
<b>Revenue from external customers</b>	<b>10,516,185</b>	<b>-</b>	<b>97,758</b>	<b>1,210,597</b>	<b>-</b>	<b>11,824,540</b>
<b>Adjusted net operating profit/(loss) before income tax</b>	<b>1,161,149</b>	<b>524,307</b>	<b>(49,491)</b>	<b>581,243</b>	<b>-</b>	<b>2,217,208</b>
Depreciation and amortisation	52,933	22,165	7,158	39,053	-	<b>121,309</b>
Revaluation of Biological Assets	814,586	(147,868)				(962,454)
<b>Totals segment assets</b>	<b>4,873,735</b>	<b>15,497,863</b>	<b>1,061,443</b>	<b>2,762,845</b>	<b>-</b>	<b>24,195,886</b>
Total assets includes:						
Additions to non – current assets (other than financial assets or deferred tax)	816,274	980,614	331,093	261,153	-	<b>2,389,134</b>
<b>Total segment liabilities</b>	<b>1,363,849</b>	<b>972,243</b>	<b>751,722</b>	<b>(18,386)</b>	<b>-</b>	<b>3,069,427</b>

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$144,372 in relation to the impairment of oysters.

(b) Other segment information

- (i) Segment revenue

Segment revenue reconciles to total revenue from continuing operations in the statement of comprehensive income as follows:

	2012 \$	2011 \$
<b>Total segment revenue</b>	<b>18,403,795</b>	21,186,203
Intersegment eliminations	<b>(7,171,367)</b>	(9,361,662)
Interest income	<b>916,881</b>	16,753
Other revenues	<b>155,447</b>	508,878
<b>Total revenue from continuing operations (note 2)</b>	<b>12,304,756</b>	12,350,171

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 28. SEGMENT REPORTING (CONT.)

#### *Major customers*

A Japanese wholesaler accounted for 31% of external revenue in 2012 (2011 - 34%). These revenues are attributable to the Australian wholesale loose pearl segment.

The entity is domiciled in Australia. The result of its revenue from third party customers in Australia is \$1,081,412 (2011: \$ 742,134) in relation to wholesale loose pearl sales. Revenue for wholesale loose pearls from third party customers based in other countries in 2012 was \$7,737,723 (2011: \$9,774,051). 85% of the total loose pearl sales revenue in 2012 (2011:75%) was to Japanese based customers.

In relation to retail jewellery sales the above segment reporting is based on the location of the sale, whether in Australia or Indonesia as the nature of the retail business relies on one off sales transactions with customers from a variety of locations.

#### **(b) Other segment information (Cont.)**

(ii) Adjusted net operating profit

Segment net operating profit/(loss) before income tax reconciliation to the statement of comprehensive income.

The Board of Directors and the management team review on a monthly basis the performance of each segment by analysing the segment's net operating profit before tax. A segment's net operating profit before tax excludes non-operating income and expense such as interest paid and received, foreign exchange gains and losses whether realised or unrealised, fair value gains and losses and impairment charges.

A reconciliation of adjusted net operating profit/(loss) before income tax is provided as follows:

	2012 \$	2011 \$
<b>Net operating profit/(loss) before tax</b>	<b>1,738,563</b>	2,217,208
Intersegment eliminations	<b>1,149,611</b>	(798,661)
Changes in fair value of biological and agricultural assets	<b>(4,075,228)</b>	962,454
Change in pearl inventory	<b>(28,739)</b>	-
Interest revenue/(expense)	-	(211,904)
Impairment expense	<b>(275,693)</b>	(144,372)
Foreign exchange gains	<b>2,251,502</b>	1,129,895
Foreign exchange losses	<b>(1,114,809)</b>	(2,048,616)
Other	<b>(5,860)</b>	(7,973)
<b>Profit/(loss) before income tax from continuing operations</b>	<b>(360,653)</b>	1,098,031

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**28. SEGMENT REPORTING (CONT.)**

(b) Other segment information (Cont.)

(iii) Segment assets

Assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	<b>2012</b>	2011
	<b>\$</b>	\$
<b>Segment assets</b>	<b>29,274,096</b>	24,195,886
Intersegment eliminations	<b>(955,709)</b>	(1,714,791)
Unallocated:		
Other	<b>565</b>	566
Investments	<b>643,871</b>	-
Joint Venture Loans	<b>127,816</b>	-
Deferred tax assets	<b>1,900,919</b>	1,388,527
Fair value adjustments on biological and agricultural assets	<b>2,610,183</b>	6,961,192
Derivative financial instruments	-	-
<b>Total assets as per the statement of financial position</b>	<b>33,601,741</b>	30,831,380

The total of non-current assets other than financial instruments, deferred tax assets and fair value adjustments on biological and agricultural assets located in Australia is \$1,022,006 (2011: \$1,126,883). The total located in Indonesia is \$11,993,953 (2011: \$14,041,299).

(iv) Segment liabilities

Liabilities are allocated based on the operations of the segment and the physical location of the asset.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 28. SEGMENT REPORTING (CONT.)

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2012 \$	2011 \$
<b>Segment liabilities</b>	<b>2,148,032</b>	3,069,427
Intersegment eliminations	<b>(111)</b>	(681,840)
Unallocated:		
Other	<b>9,594</b>	3,564
Current tax liabilities	<b>361,339</b>	74,417
Borrowings	<b>4,935,922</b>	5,720,486
Deferred tax liabilities	<b>1,930,243</b>	2,215,055
Derivative financial instruments	-	146,450
<b>Total liabilities as per the statement of financial position</b>	<b>9,385,019</b>	10,457,559

### 29. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1.7.

Name of entity	Class of shares	Percentage owned	Percentage owned	Place of incorporation
		2012	2011	
Perl'Eco Pty Ltd <sup>(1)</sup>	Ord	100%	100%	Australia
Tansim Pty Ltd	Ord	100%	100%	Australia
P.T. Cendana Indopearls	Ord	100%	100%	Indonesia
Aspirasi Satria Sdn Bhd	Ord	100%	100%	Malaysia

(1) Previously named Sharcon Pty Ltd

The ultimate parent entity, Atlas Pearls and Perfumes Ltd, is incorporated in Australia.

On 15 January 2013, subsequent to the year end the Group acquired a new 100% owned subsidiary; Essential Oils of Tasmania.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

<b>30. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b>	<b>2012 \$</b>	<b>2011 \$</b>
Shares in joint venture partnership (note 31)	<b>554,766</b>	-
	<b>554,766</b>	-

**31. INTERESTS IN JOINT VENTURES**

(a) Joint venture partnership

The parent entity has a 50% interest in World Senses Pty Ltd, which is a resident in Australia and the principal activity of which is the commercialisation of Atlas and Essential Oils of Tasmania's R&D, products and export markets. This vehicle will commercialise the production of new emerging extracts from Essential Oils of Tasmania and pearls from Atlas with an intimal focus on pearl micronized powder, pearl perfume extracts, pearl cosmetic extracts, Perl'fume™ technology and Australian indigenous perfume ingredients such as Sandalwood, Boronia and Fire Tree (*Zanthorrhoea preissii*).

The interest in World Senses Pty Ltd is accounted for in the financial statements using the equity method of accounting (refer to note 30). Information regarding to the joint venture partnership is set out below.

	<b>2012 \$</b>	<b>2011 \$</b>
<b>Share of partnerships' assets and liabilities</b>		
Current assets	<b>420,884</b>	-
Non-current assets	<b>287,178</b>	-
Total assets	<b>708,062</b>	-
		-
Current liabilities	<b>450</b>	-
Non-current liabilities	<b>26,403</b>	-
Total liabilities	<b>26,853</b>	-
<b>Net assets</b>	<b>681,209</b>	-
<b>Share or partnership's revenues, expenses and results</b>		
Revenues	<b>6,491</b>	-
Expenses	<b>(89,645)</b>	-
Loss before income tax	<b>83,154</b>	-
<b>Share of partnership's capital commitments</b>		

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 31. INTERESTS IN JOINT VENTURES (CONT.)

(b) Contingent liabilities relating to joint ventures

Each of the partners in World Senses Pty Ltd are jointly and severally liable for the debts of the partnership. The assets of the partnership exceed its debts.

There have been no legal claims lodged against the partnership. The partnership does not have any contingent liabilities in respect of a legal claim lodged against the partnership.

### 32. PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2012	2011
	\$	\$
<b>Statement of financial position</b>		
Current assets	5,725,950	21,637,334
Total assets	29,274,444	23,978,528
Current liabilities	5,673,761	6,835,557
Total liabilities	6,652,455	6,866,243
<b>Shareholders equity</b>		
Issued capital	27,913,287	23,287,552
Reserves		
Share-based payment reserve	581,029	581,029
Retained earnings	(5,872,327)	(6,756,297)
	<u>22,621,989</u>	<u>17,112,284</u>
<b>Profit / (loss) for the year</b>	<u>269,273</u>	<u>(256,932)</u>
<b>Total comprehensive income</b>	<u>269,273</u>	<u>(256,932)</u>

#### (b) Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2012 or 31 December 2011.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 33. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and options to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, ie not as trading or speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. The Group uses sensitivity analysis in the case of interest rate and foreign exchange risks and aging analysis for credit risk.

Risk management is carried out by the Board of Directors.

The Group holds the following financial instruments:

	2012 \$	2011 \$
<b>Financial Assets</b>		
Cash and cash equivalents	2,127,414	409,871
Trade and other receivables	2,592,414	344,721
Derivative financial instruments	181,327	-
	<b>4,901,155</b>	754,592
<b>Financial Liabilities</b>		
Trade and other payables	1,023,001	1,562,911
Borrowings	4,935,922	5,720,486
Derivative financial instruments	-	146,450
	<b>5,958,923</b>	7,429,847

#### Market Risk

##### (i) Foreign exchange risk

The Group operates internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Japanese Yen, Indonesian Rupiah and US Dollar.

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 and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

Management manages their foreign exchange risk against their functional currency. Group companies are required to hedge their foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward exchange contracts and options under the guidance of the Board of Directors.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

**33. FINANCIAL RISK MANAGEMENT (Cont.)**

The Groups exposure to foreign currency risk at the reporting date expressed in Australian dollars, was as follows:

	31 December 2012				31 December 2011			
	JPY \$	IDR \$	USD \$	EUR \$	JPY \$	IDR \$	USD \$	EUR \$
Cash and cash equivalents	103,985	259,588	134,419	5,544	22,655	209,410	44	905
Trade and other receivables	2,201	39,705	-	-	-	3,665	-	-
Trade and other payables	-	320,258	86,356	-	-	182,109	329,244	5,490
Borrowings	4,303,195	-	-	-	4,868,311	-	-	-
Forward exchange contracts – buy foreign currency	-	-	-	-	153,398	-	-	-
Forward exchange contracts – sell foreign currency	182,722	-	-	-	-	6,948	-	-

**Group Sensitivity Analysis**

Sensitivity analysis is based on exchange rates in US Dollars, Japanese Yen, and Indonesian Rupiah increasing or decreasing by 10% and the affect on profit and equity

	Statement of Financial Performance Amount  AUD 2012      2011		Foreign Exchange Rate Risk							
			31 December 2012				31 December 2011			
			-10%		10%		-10%		10%	
			Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
<b>Financial Assets</b>										
Cash	2,127,414	409,871	29,673	-	(20,076)	-	2,623	-	(2,146)	-
Trade and other receivables	2,592,414	344,721	(96)	-	(479)	-	-	-	-	-
Derivatives	181,327	-	(200,954)	-	163,983	-	-	-	-	-
<b>Financial Liabilities</b>										
Trade and other payables	1,023,001	1,562,911	45,179	-	(36,965)	-	(43,019)	-	25,663	-
Borrowings	4,935,922	5,720,486	(472,011)	-	396,208	-	(531,014)	-	450,681	-
Derivatives	-	146,450	-	-	-	-	(483,748)	-	489,264	-
Total Increase/(Decrease)			(598,209)	-	502,671	-	(1,055,158)	-	963,462	-

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 33. FINANCIAL RISK MANAGEMENT (Cont.)

#### (ii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from its borrowings. Given that borrowings are all due within 12 months and are at fixed interest rates the Group considers that any fair value interest rate risk or cash flow risk will be immaterial.

#### (iii) Price risk

The Group is exposed to fluctuations in pearl prices. This product is not traded as a commodity on an open market and as such the price risk cannot be hedged.

#### Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, as well as credit exposures to wholesale and retail customers, including outstanding receivables. The Group considers the credit quality of the customer, taking into account its financial position, past experience and other factors. Sales to retail customers are required to be settled in cash or using major credit cards, thus mitigating credit risk.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised on page 68. For retail customers without credit rating the Group generally retains title over the goods sold until payment is received in full.

All cash balances held at banks are held at internationally recognised institutions. The Australian Government has guaranteed all deposits held with Australian banks, cash held in Indonesia is not covered by this guarantee. The majority of other receivables held are with related parties and within the Group. Given this the credit quality of financial assets that are neither past due or impaired can be assessed by reference to historical information about default rates.

The credit quality of trade receivables that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

Trade receivables	2012 \$	2011 \$
Retail customers – no credit history	14,331	3,665
Wholesale customers – existing customers with no defaults in the past	53,694	72,237
Total trade receivables	68,025	75,902

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group management aims at maintaining flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments such as term deposits that are highly liquid.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 33. FINANCIAL RISK MANAGEMENT (Cont.)

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (note 6) on the basis of expected cash flows. This is generally carried out by the Board of Directors on a Group basis. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

#### Financing arrangements

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

Fixed rate	2012 \$	2011 \$
Expiring within one year – Foreign currency loan trade	5,000,000	5,000,000
	<b>5,000,000</b>	<b>5,000,000</b>

This loan is secured by a registered company charge by Commonwealth Bank of Australia over the whole of the assets and undertakings including uncalled capital of Atlas Pearls and Perfumes Ltd and its related entities except Essential Oils of Tasmania. The bank loans are provided under a Japanese Yen facility with fixed interest rates varying from 3.80% to 3.55% and are repayable on 31 May 2014. As at reporting date the Company had drawn down \$4,303,195 (2011: \$ 4,868,227) and had undrawn facilities available of \$696,805 (2011: \$131,773). This loan can be drawn at anytime and is subject to annual review.

The Other bank loan (secured) is also provided by Commonwealth Bank of Australia Ltd and is secured by the same charge over the whole of the assets and undertakings of Atlas Pearls and Perfumes Ltd and its related entities as above except Essential Oils of Tasmania. These loans are provided under an Australian Dollar denominated business loan which had a variable interest rate of 8.11%. The loan has a term of two years remaining expiring on 24 November 2014 and is repayable in equal monthly amounts over the term of the loan. As at the reporting date, the amount outstanding on this loan was \$165,870 with undrawn facilities available of \$34,130 at 31 December 2012.

Lease liabilities have been provided by St George Bank and Esanda and are effectively secured by the rights to the leased assets, recognised in the financial statements, which revert to the lessor in the event of default. The value of the loans relating to Lease liabilities as at the reporting date was \$232,360 (2011: \$339,718).

The company is required to meet three financial undertakings to comply with the lending conditions as follows:

- Earnings before interest, tax, depreciation and amortisation (EBITDA) will be greater than and at least equal to;
  - \$1,250,000 for the 12 months 1 January 2012 to 31 December 2012; and
  - \$1,500,000 for the 12 months 1 January 2013 to 31 December 2013.
- Minimum net worth of the borrower (Atlas) will at all times be greater than \$18,000,000; and
- The ratio of net worth of the borrower to total tangible assets of the borrower will at all times be equal to or greater than 60%.

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

33. FINANCIAL RISK MANAGEMENT (CONT.)

**Maturities of financial liabilities**

The table below analyses the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on their remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cashflows.

Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

CONSOLIDATED ENTITY	31 December 2012						31 December 2011					
	Less than 6 Months	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Total contractual cash flows	Carrying amount (asset)/ Liabilities	Less than 6 Months	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Total contractual cash flows	Carrying amount (asset)/ Liabilities
	\$	\$			\$	\$	\$	\$			\$	\$
Non-Derivatives												
Trade payables	1,023,001	-	-	-	1,023,001	1,023,001	1,562,912	-	-	-	1,562,912	1,562,912
Borrowings	4,517,184	213,988	171,807	32,943	4,935,922	4,935,922	5,167,738	162,766	193,480	196,502	5,720,486	5,720,486
<b>Total non-derivatives</b>	<b>5,540,185</b>	<b>213,988</b>	<b>171,807</b>	<b>32,943</b>	<b>5,958,923</b>	<b>5,958,923</b>	<b>6,730,650</b>	<b>162,766</b>	<b>193,480</b>	<b>196,502</b>	<b>7,283,398</b>	<b>7,283,398</b>
<b>Derivatives</b>												
Net settled ( Non deliverable forwards)	182,722	-	-	-	-	182,722	30,038	-	-	-	30,038	(6,948)
Gross settled												
-(inflow)	2,000,000	-	-	-	-	2,000,000	(2,800,000)	(4,000,000)	-	-	(6,800,000)	
-outflow	(1,817,278)	-	-	-	-	(1,817,278)	2,830,391	4,224,612	-	-	7,055,003	153,398
<b>Total Derivatives</b>	<b>182,722</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>182,722</b>	<b>60,429</b>	<b>224,612</b>	<b>-</b>	<b>-</b>	<b>285,041</b>	<b>146,450</b>

Borrowings, includes the loan to the Commonwealth Bank (CBA), and is classified as an amount due within 6 months. This loan is drawn as a bank bill facility which has various maturity dates within the first six months of 2013. Bank bills which expire within the first six months of 2013 will be rolled over into a new loan with a revised maturity date within 6-12 months.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### Fair value measurements

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 Financial Instruments: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities ( level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2) ,and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 31 December.

CONSOLIDATED ENTITY – as at 31 December 2012	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Assets</b>				
Derivatives	-	181,327	-	-
<b>Total Assets</b>	-	<b>181,327</b>	-	-
<b>CONSOLIDATED ENTITY – as at 31 December 2011</b>				
<b>Liabilities</b>				
Derivatives	-	(146,450)	-	-
<b>Total Liabilities</b>	-	<b>(146,450)</b>	-	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market prices used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market such as unlisted investments and subsidiaries is determined using valuation techniques where applicable. Where this is unable to be done they are held at cost.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques such as estimated discounted cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the reporting date. These instruments are included in level 2 and comprise derivative financial instruments.

The carrying value of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

### 34. CHANGE IN ACCOUNTING POLICIES

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2012 unless disclosed in Note 1. The Group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below. The initial application of the following Standards and Interpretations is not expected to have any material impact on the financial report of the consolidated entity and the company.

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

**34. CHANGE IN ACCOUNTING POLICIES (CONT.)**

<b>AASB Amendment</b>	<b>Affected Standard(s)</b>	<b>Nature of Change to Accounting Policy</b>	<b>Application Date of Standard*</b>	<b>Application Date for Group</b>
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Items in Other Comprehensive Income	Makes amendments to align the presentation of items of other comprehensive income with US GAAP.	1 July 12	1 Jan 13
AASB 2012-5 (issued June 2012)	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	Non-urgent but necessary changes to standards	1 Jan 13	1 Jan 13
AASB 2012-6 (issued September 2012)	Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures	Defers the effective date of AASB 9 to 1 January 2015	1 Jan 15	1 Jan 15
AASB 9	Financial Instruments	Changes to classification and measurement requirements of financial instruments.	1 Jan 15	1 Jan 15
AASB 10	Consolidated Financial Statements	Changes to classification and measurement requirements of entities requiring consolidation.	1 Jan 13	1 Jan 13
AASB 11	Joint Arrangements	Changes to classification and measurement requirements of joint arrangements.	1 Jan 13	1 Jan 13
AASB 12	Disclosure of Interests in Other Entities	Introduces new disclosure requirements for interest in associates and joint arrangements.	1 Jan 13	1 Jan 13
AASB 13	Fair Value Measurement	AASB 13 establishes a single framework for measuring fair value of financial and non financial items recognised at fair value in the statement of financial position or disclosed in notes in the financial statements.	1 Jan 13	1 Jan 13
AASB 119 (reissued September 2011)	Employee Benefits	Changes to measurement of defined benefit plans and timing of recognition of liabilities	1 Jan 13	1 Jan 13

Any other amendments are not applicable to the Group and therefore have no impact.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 35. POST REPORTING DATE EVENTS

#### Change of Company Name

On the 16<sup>th</sup> of January 2013 Atlas South Sea Pearl Limited changed its name to Atlas Pearls and Perfumes Ltd. This followed the incorporation of World Senses Pty Ltd (joint venture with Nomad Two Worlds) and shareholder approval obtained at the EGM held on 4<sup>th</sup> December 2012 for the broadening of the business to purchase Essential Oils of Tasmania (EOT) and expand the product range into luxury perfumes and cosmetics. Atlas Pearls and Perfumes Ltd (Atlas P&P) is a name which more closely reflects this luxury supplier status.

#### Rights Issue

Atlas Pearls and Perfumes Ltd undertook a Rights Issue which closed on 18<sup>th</sup> of January 2013. The Company has issued 30,240,735 shares at a price of five (5) cents per share and 30,240,735 free attaching options and raised \$1,512,036.75 before costs. The new shares will rank equally with the Company's existing issued shares.

#### Essential Oils of Tasmania Acquisition

The Acquisition of Essential Oils of Tasmania was finalised on the 15<sup>th</sup> January 2013. Atlas Pearls and Perfumes agreed to purchase Essential Oils of Tasmania for a price of \$650,000, paid by way of 10 million shares in Atlas Pearls & Perfumes at 6.5 cents per share. As per Resolution 4 of the Extraordinary General meeting, Essential Oils of Tasmania Pty Ltd and Atlas Pearls and Perfumes will provide financial assistance to Abermac Pty Ltd and will issue Abermac Pty Ltd 10,833,333 shares and 350,000 Convertible Notes and Shares upon any conversion of those Convertible Notes. The Convertible notes have a Face Value of \$1.00 per convertible note, a maturity date of 15 January 2015, an annual interest rate of 6% payable half-yearly in arrears and a conversion price – the lower of \$0.05 and 90% of the average sales price of the Company's shares sold on ASX for each trading day on which shares are sold on ASX during the 10 days prior to the conversion date. The funds raised from the issue of the 3,333,334 fully paid ordinary shares and 500,000 convertible notes will be used to:

- a) Support existing current assets;
- b) Reduce existing debt in the Essential Oils of Tasmania business being acquired by the Company;
- c) Fund research and development initiatives;
- d) Fund increased production of strategic pearl by-product and perfume ingredients and commercialisation of new consumer products through World Senses Pty Ltd;
- e) Fund the expansion of the existing pearl auction strategy; and
- f) Strengthen the Statement of Financial Performance for general working capital purposes.

## 35. POST REPORTING DATE EVENTS

### 2007 Indonesian Tax Appeal

On the 25<sup>th</sup> of January 2013 Atlas's Indonesian subsidiary PT Cendana Indopearl received official notification from the Indonesian Tax Court that it had won the 2007 tax appeal.

The final amount awarded to Atlas was IDR 15,739,416,501 (approximately \$AUD1.57M) plus accrued interest estimated to be in the order of IDR 7,552,734,945 (approximately \$AUD 0.76M). The estimated total being \$AUD 2.33M.

On the 19<sup>th</sup> February 2013, the balance due to Atlas was received in full with interest. The amount received by Atlas's Indonesian subsidiary, PT Cendana Indopearls was IDR 15,739,416,501 (approximately \$AUD1.57M) plus accrued interest estimated to be in the order of IDR 7,552,734,945 (approximately \$AUD 0.76M) making a total of IDR 23,292,151,146" (approximately \$AUD2.33M).

This substantial tax refund has had a major positive effect on the company's Statement of Financial Performance and will further enhance our marketing strategies for 2013 by improving the timing of sales events.

### Appointment of New Director – Tim Martin

On the 4<sup>th</sup> of February 2013 Atlas appointed Mr Tim Martin to the Board of Directors. Mr Martin will act as a Non-Executive Director for Atlas.

The results of significant operating activities are made available to shareholders and other interested parties through announcements to the Australian Securities Exchange and through regular newsletters.

### Issue of Convertible Notes and 2,053,842 Fully Paid Ordinary Shares on 7 March 2013

Issued an additional 350,000 convertible notes, unlisted unsecured with the following terms;

- vii. Face value - \$1.00 per convertible note.
- viii. Maturity date – 1 March 2015
- ix. Convertible at the election of the holder during prescribed 10 business day "windows" prior to the first and second anniversary of the date of issue.
- x. Conversion price – the lower of \$0.05 and 90% of the average of the daily volume-weighted average sales price of the Company's shares sold on ASX for each trading day on which shares are sold on ASX during the 10 trading days prior to the conversion date.
- xi. Interest – 6% per annum payable half yearly in arrears with the first interest payment date being 1 September 2013.
- xii. Redemption – at the election for the Company at any time before the maturity date, otherwise on the maturity date.

2,053,842 fully paid ordinary shares issued. 1,220,509 at \$0.05 per share and 833,333 issued at \$0.06 per share.

Issue of (i) 103,709 fully paid ordinary shares on exercise of 103,709 unlisted options exercisable at \$0.05 each, on or before 29 January 2014; (ii) 833,333 fully paid ordinary shares as announced to ASX on 25 October 2012 and approved by shareholders in the General Meeting of Shareholders held on 4 December 2012, and (iii) 1,116,800 fully paid ordinary shares as placement of the shortfall from the Company's non-renounceable entitlements offer that closed on 18 January 2013.

## NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 35. POST REPORTING DATE EVENTS (CONT.)

As approved in the General Meeting of Shareholders held on 4 December 2012. The funds raised from all issues will be used to:

- a) Support existing current assets;
- b) Reduce existing debt in the Essential Oils of Tasmania business being acquired by the Company;
- c) Fund research and development initiatives;
- d) Fund increased production of strategic pearl by-product and perfume ingredients and commercialisation of new consumer products through World Senses Pty Ltd;
- e) Fund the expansion of the existing pearl auction strategy; and
- f) Strengthen the Statement of Financial Performance for general working capital purposes.

#### **Issued capital, convertibles and Unlisted Options on 20 March 2013**

On 20 March 2013 the Group had the following equity instruments on issues;

	No.
Issued Capital	277,852,983
Treasury Shares	7,841,616
Convertible Notes	950,000
Unlisted Options	31,153,828

### 36. ECONOMIC DEPENDENCY

All of the company's pearls are purchased from its wholly owned subsidiary PT Cendana Indopearls.

## DECLARATION BY DIRECTORS

The Directors of the Company declare that:

- a) the financial statements comprising the statement of comprehensive income, statement of financial position, statement of cash flows, 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 consolidated entity's financial position as at 31 December 2012 and of the performance for the year ended on that date; and
  - (ii) comply with Accounting Standards, and the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- b) the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- c) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A.
- d) 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.
- e) the remuneration disclosures included on pages 25 to 34 of the Directors' Report (as part of audited remuneration report) for the year ended 31 December 2012 comply with section 300A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:



S.P. Birkbeck

Chairman

Perth, Western Australia

26<sup>th</sup> March 2013

# A U D I T O R S R E P O R T



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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ATLAS PEARLS AND PERFUMES LTD (FORMERLY ATLAS SOUTH SEA PEARL LIMITED)

### Report on the Financial Report

We have audited the accompanying financial report of Atlas Pearls and Perfumes Ltd (formerly Atlas South Sea Pearl Limited), which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 disclosing entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1.2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 judgement, 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 disclosing entity's preparation of the financial report that gives a true and fair view 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 disclosing 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, which has been given to the directors of Atlas Pearls and Perfumes Ltd, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO South Sea Pearl Ltd ABN 76 112 061 787 is a member of a national association of independent entities which are all members of BDO International Ltd ABN 77 060 110 075, an Australian company limited by guarantee. BDO South Sea Pearl Ltd and BDO Australia are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms, locally limited by a licence approved under professional standards legislation (other than for the acts or omissions of financial services) operating under local or territory laws other than Australia.

# A U D I T O R S   R E P O R T



## Opinion

In our opinion:

- (a) the financial report of Atlas Pearls and Perfumes Ltd is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.2.

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the disclosing entity 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.

## Opinion

In our opinion, the Remuneration Report of Atlas Pearls and Perfumes Ltd for the year ended 31 December 2012 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

Chris Burton  
Director

Perth, Western Australia  
Dated this 26<sup>th</sup> day of March 2013

# C O R P O R A T E   G O V E R N A N C E   S T A T E M E N T

The Board of Directors of Atlas Pearls and Perfumes Ltd (“Atlas” or “the Company”) is responsible for the corporate governance of the Company and its subsidiaries and the Board has adopted a manual of corporate governance policies and procedures based on control systems and accountability. The Board of the Company will review the Atlas’ Corporate Governance Plan annually. The Corporate Governance Plan is available in the corporate governance information section of the Company’s website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au). A summary of the Company’s corporate governance policies and procedures is included in this Statement.

The Company’s corporate governance policies and procedures are in line with the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“the Principles & Recommendations”). The Company has followed the Principles & Recommendations where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration by the Board, the Company’s corporate governance practices depart from the Principles & Recommendations, the Board has fully disclosed the departure and the reason for the adoption of its own practice, in compliance with the “if not, why not” exception reporting regime.

Further information about the Company’s corporate governance practices including the information on the Company’s charters, code of conduct and other policies and procedures is set out on the Company’s website.

## **BOARD OF DIRECTORS**

### **Role of the Board and Management**

The Board is responsible for promoting the success of the Company in a way which ensures that the interests of shareholders and stakeholders are promoted and protected. The Board may delegate some powers and functions to the Managing Director or CEO for the day-to-day management of the Company. Powers and functions not delegated remain with the Board. The key responsibilities and functions of the Board include the following:

- appointment of the Managing Director/CEO 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;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- 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;
- approving the annual and half yearly 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;
- 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.

## C O R P O R A T E   G O V E R N A N C E   S T A T E M E N T

The Board's role and the Company's corporate governance practices are periodically reviewed and improved as required.

The role of the senior management of the Company is to progress the strategic direction provided by the Board. Senior management will be responsible for supporting the Board in implementing the running of the general operations and financial business of the Company in accordance with the delegated authorities for expenditure levels and materiality thresholds in place.

The Company has a Performance Evaluation policy which outlines the performance evaluation of the Board, its Committees and its individual Directors. The Nomination Committee is responsible for evaluation of the Board its Committees and its individual Directors, if required, on an annual basis.

No formal reviews of the Board, its Committees and its individual Directors were undertaken during the financial year. Next financial year, a formal review of the role of the Board is proposed to be conducted to assess the performance of the Board over the previous twelve (12) months and examine ways of assisting the Board in performing its duties more effectively. The review may include:

- comparing the performance of the Board with the requirements of its Charter;
- examination of the Board's interaction with management;
- the nature of information provided to the Board by management; and
- management's performance in assisting the Board to meet its objectives.

A similar formal review will be conducted for each Committee, if relevant, by the Board with the aim of assessing the performance of each Committee and identifying areas where improvements can be made.

Next financial year, a review may be conducted for each Director to assess performance of that Director and to identify areas where improvements can be made.

The Board with assistance from the Remuneration Committee oversee the performance evaluation of the executive team. This evaluation is based on specific criteria, including the performance of the Company, whether strategic objectives are being achieved and the development of management and personnel. Performance and remuneration reviews of the executive team were conducted during the financial year and these reviews are undertaken at least annually. Senior executives are reviewed against a number of qualitative and quantitative factors relevant to their role and position.

The Board Charter including matters reserved for the Board and senior management and the Performance Evaluation Policy is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

### **Composition of the Board**

The Company has adopted a policy on assessing the independence of Directors which is consistent with the guidelines detailed in the ASX Principles & Recommendations and detailed in the Board Charter and is attached as Annexure A to the Corporate Governance Plan. The materiality thresholds in this policy are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

During the financial year the Board included an executive Chairman/Managing Director, Mr. Stephen Birkbeck and two non-executive Directors, Mr. Geoffery Newman and Dr. Joseph Taylor. The Board considers Mr. Newman and Dr. Taylor to be independent based on

## C O R P O R A T E   G O V E R N A N C E   S T A T E M E N T

the criteria for independence included in the Company's Policy on Assessing the Independence of Directors and the ASX Principles & Recommendations. Mr. Birkbeck being an executive of the Company and a substantial holder via his controlled entities is not be considered to be independent. As such, during the financial year, the Board has a majority of independent Directors. Following the end of the financial year, Mr. Timothy Martin was appointed a Non-executive Director of the Company. Mr. Martin being a substantial holder via his controlled entities is not considered to be independent. Therefore, the Company currently has two independent Directors and two Directors who are not considered to be independent.

The role of CEO/Managing Director and Chairman are both fulfilled by Mr. Birkbeck. Mr. Birkbeck brings specific skills and industry experience relevant to the Company. Given the size of the Company and the size of the Board, the Board considers that this appointment is appropriate.

Any changes to the composition of the Board will be determined by the Board, subject to the Company's Constitution, any applicable laws and the resolutions of Shareholders. The Board will seek to nominate persons for appointment to the Board with the appropriate mix of skills and experience to ensure an effective decision-making body and to ensure that the Board is comprised of Directors who contribute to the successful management of the Company and discharge their duties having regard to the law and the highest standards of corporate governance. The Board should comprise Directors with a mix of qualifications, experience and expertise which will assist the Board in fulfilling its responsibilities, as well as assisting the Company in achieving growth and delivering value to shareholders.

As required by the Constitution of Atlas, at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third, shall retire from office, provided always that no Director (except the Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election. Any Director (except the Managing Director) appointed by the Directors since the date of the last annual general meeting must also stand for re-election at the next annual general meeting following their appointment. Prior to the Board proposing re-election of non-executive Directors, their performance will be evaluated to ensure that they continue to contribute effectively to the Board.

The Company's policy for re-election of Directors and selection and appointment of new Directors is available in the Board Charter and Nomination Committee Charter in the Corporate Governance Plan on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report.

### **Statement concerning availability of Independent Professional Advice**

The Board considers that to assist Directors with independent judgement a Director may consider it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a Director. Provided the Director first obtains approval for incurring such expense from the Chairman, the Company will pay the reasonable expenses associated with obtaining such advice.

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## **Nomination Committee**

Given the present size of the Company, the whole Board acts as the Nomination Committee. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. To assist the Board to fulfill its function as the Nomination Committee, the Board has adopted a Nomination Committee Charter. The responsibilities of the Committee include the periodic review and consideration of the structure and balance of the Board and the making of recommendations regarding appointments, retirements and terms of office of Directors.

The Nomination Committee Charter is available on the Company's website [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

## **Remuneration Committee**

The Board has established a Remuneration Committee which is comprised of Mr. Newman (Chairman of the Committee and independent Non-executive Director), Dr. Taylor (independent Non-executive Director) and Mr. Birkbeck (Chairman of the Board and Managing Director/CEO). Mr. Birkbeck, in his capacity as Managing Director/CEO does not attend the Remuneration Committee Meetings that involve matters that pertain to him. The Committee has a majority of independent Directors and is chaired by an independent Director.

To assist the Committee to fulfill its function as the Remuneration Committee, the Board has adopted a Remuneration Committee Charter. The Remuneration Committee Charter is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

Remuneration of Directors and senior management is determined with regard to the performance of the Company, the performance and skills and experience of the particular person and prevailing remuneration expectations in the market. Details of remuneration of Directors and Key Management Personnel are disclosed in the Remuneration Report.

The performance of the Managing Director/CEO and the executive team is reviewed annually by the Remuneration Committee. The performances of the other staff are reviewed on an annual basis by the Managing Director/CEO in consultation with the Remuneration Committee.

There are no termination or retirement benefits for non-executive Directors (other than for superannuation).

Executives are prohibited from entering into transactions or arrangements which limit the economic risk of participating in unvested entitlements.

## **Code of Conduct**

The Company has adopted a Code of Conduct that outlines how the Company expects its Directors and employees of the Company to behave and conduct business in the workplace on a range of issues. The Company is committed to the highest level of integrity and ethical standards in all business practices.

The purpose of the Code of Conduct is to provide a framework for decisions and actions in relation to ethical conduct in employment. It 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.

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It sets out the Company's expectations of its Directors and employees with respect to a range of issues including personal and professional behaviour, conflicts of interest, public and media comment, use of Company resources, security of information, intellectual property and copyright, discrimination and harassment, corrupt conduct, occupational health and safety, fair dealing and insider trading.

A breach of the Code is subject to disciplinary action which may include punishment under legislation and/or termination of employment. The Code of Conduct is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

## **Ethical Standards**

The Board considers that the success of the Company will be enhanced by a strong ethical culture within the Company. Accordingly, the Board is committed to the highest level of integrity and ethical standards in all business practices. Employees must conduct themselves in a manner consistent with current community and corporate standards and in compliance with all legislation.

## **Conflicts of Interest**

In accordance with the Corporations Act 2001, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered.

## **Guidelines for Trading in the Company's Securities**

The Trading Policy adopted by the Board prohibits trading in shares by a Director, officer or employee during certain blackout periods (in particular, prior to release of the half yearly and annual financial results) except in exceptional circumstances and subject to procedures set out in the Guidelines.

Outside of these blackout periods, a Director, officer or employee must first obtain clearance in accordance with the Guidelines before trading in shares. For example:

- A Director must receive clearance from the Managing Director/CEO or Chairman before he may buy or sell shares.
- If the Chairman wishes to buy or sell shares he must first obtain clearance from the Board.
- Other officers and employees must receive clearance from the Managing Director or Chairman before they may buy or sell shares.

Directors, officers and employees must observe their obligations under the Corporations Act 2001 not to buy or sell shares if in possession of price sensitive non-public information and that they do not communicate price sensitive non-public information to any person who is likely to buy or sell shares or communicate such information to another party.

The Trading Policy is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

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## **Continuous Disclosure**

The Company is a “disclosing entity” for the purposes of Part 1.2A of the Corporations Act 2001. As such, the Company has a Continuous Disclosure Policy. The purpose of this Continuous Disclosure Policy is to ensure the Company complies with continuous disclosure requirements arising from legislation and the Listing Rules of the Australian Securities Exchange (“ASX”). The Policy sets out the procedure for:

- protecting confidential information from unauthorised disclosure;
- identifying material price sensitive information and reporting it to the Company Secretary for review;
- ensuring the Company achieves best practice in complying with its continuous disclosure obligations under legislation and the Listing Rules; and
- ensuring the Company and individual officers do not contravene legislation or the Listing Rules.

The Company has obligations under the Corporations Act 2001 and ASX Listing Rules to keep the market fully informed of information which may have a material effect on the price or value of the Company’s securities and to correct any material mistake or misinformation in the market. Atlas discharges these obligations by releasing information to the ASX in the form of an ASX release or disclosure in other relevant documents (e.g. the Annual Report).

The Company recognises that the maintenance of confidentiality is also of paramount importance to the Company both to protect its trade secrets and to prevent any false market for the Company’s shares from developing.

All relevant information provided to ASX in compliance with the continuous disclosure requirements of legislation and the Listing Rules is promptly posted on the Company’s web site [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

The Continuous Disclosure Policy is available on the Company’s website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

## **Audit Committee**

The Board has established an Audit Committee which is comprised of Mr. Newman (Chairman of the Committee and independent Non-executive Director) and Dr. Taylor (independent Non-executive Director). The Committee consists only of independent Non-executive Directors and is chaired by an independent chair, who is not the chair of the Board. Mr. Newman, the Chairman of the Committee, has extensive financial experience. Dr. Taylor has a good understanding of business and is financially literate.

The Committee only had two members during the financial year. The Board believes no efficiencies or other benefits could be gained by establishing a larger Audit Committee.

To assist the Committee to fulfill its function as the Audit Committee, the Board has adopted an Audit Committee Charter.

The Audit Committee provides recommendations in relation to the initial appointment of the external auditor and the appointment of a new external auditor should a vacancy arise. Any appointment of a new external auditor made by the Board must be ratified by shareholders at the next annual general meeting of the Company.

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Proposed external auditors must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. In addition, the successful candidate for external auditor must have arrangements in place for the rotation of the lead audit engagement partner on a regular basis. Other than these mandatory criteria, the Board may select an external auditor based on other criteria relevant to the Company such as references, cost and any other matters deemed relevant by the Board.

A formal Audit Committee Charter has been adopted, a copy of which is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

## **Communication to Shareholders**

The Company has a Shareholder Communications Strategy that promotes effective communication with shareholders and encourages presentation of information to shareholders in a clear, concise and effective manner. The Board aims to ensure that Shareholders are informed of all major developments affecting the Company's state of affairs. Information will be communicated to Shareholders through the annual report, half yearly report, disclosures and announcements made to the ASX, the annual general meeting and general meetings and through the Company's website.

The Company considers general meetings to be an effective means to communicate with shareholders and encourages shareholders to attend the meeting. Information included in the notice of meeting sent to shareholders will be presented in a clear, concise and effective manner.

The Shareholder Communications Strategy is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

## **Risk Management**

The Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Board delegates to the Managing Director/CEO responsibility for implementing the risk management system who will submit particular matters to the Board for its approval or review. The Chairman and Managing Director/CEO is required to report on the management of risk as a standing agenda item at each Board meeting. This involves the tabling of a risk register which is monitored and updated by management periodically.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and regularly report back to the Board.

The Board will regularly review assessments of the effectiveness of risk management and internal compliance and control. The Board also receives an assurance from management that the Company's management of its material business risks is effective.

The Company's Risk Management Policy is available on the Company's website at [www.atlassouthseapearl.com.au](http://www.atlassouthseapearl.com.au).

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## Integrity of Financial Reporting

The Board has received assurance in writing from Mr. Birkbeck, Executive Chairman and CEO and Mr. Stephen Gleeson, Chief Financial Officer, in accordance with section 295A of the Corporations Act 2001 that:

the consolidated financial statements of the Company and its controlled entities for the financial year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;

the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

## Diversity Policy

The Company recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent. Given the present size of the Company, the Board has not adopted a Diversity Policy. The Board believes no efficiencies or other benefits could be gained by establishing a formal Diversity Policy. The Board will consider the adoption of a formal Diversity Policy if deemed appropriate in future.

Given the size of the Company, no measurable diversity objectives or strategies have been set however the current proportion of women employees in the Company, in senior executive positions and on the Board is included below.

	Male	Female
<b>Board</b>	4	-
<b>Senior Management</b>	5	1
<b>Staff</b>	445	389

# C O R P O R A T E   G O V E R N A N C E   S T A T E M E N T

## ASX LISTING RULE DISCLOSURE – EXCEPTION REPORTING

As required by ASX Listing Rules, the following table discloses the extent to which Atlas has not followed the best practice recommendations set by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations.

Principle No.	Best Practice Recommendation	Compliance	Reasons for Non-compliance
2.1	A majority of the Board should be independent directors.	Currently, Atlas has two independent and two non-independent Directors.	The Board considers that the current composition of the Board is appropriate in the context of the size of the Board and the Company and the scope and scale of the Company's operations. Further, the Company considers that each of the non-independent Directors possess skills and experience suitable for building the Company. The Board will consider the appointment of independent Directors if deemed appropriate in future.
2.2	The Chair should be an independent Director.	Currently, Atlas has a non-independent Chair.	The Board considers that the non-independent Chair possesses skills and experience suitable for leading the Board and considers a non-independent Chair to be appropriate in the context of the Company's operations. Mr. Birkbeck brings specific skills and industry experience relevant to the Company. The Board will consider the appointment of an independent Director as the Chair if deemed appropriate in future.
2.3	The role of Chair and CEO should not be exercised by the same individual.	Currently, Atlas' Chair also fulfils the role of Managing Director/CEO.	The Board considers Mr. Birkbeck brings specific skills and industry experience relevant to the Company and considers a Chair/CEO to be appropriate in the context of the Company's operations and the size of the Board and the Company. The Board will consider splitting the role of Chairman and CEO/Managing Director if deemed appropriate in future.
2.4	The Board should establish a nomination committee.	The Board has not established a nomination committee.  The role of the nomination committee is carried out by the full Board.	Given the present size of the Company and the Board, the whole Board acts as a nomination committee. The Board believes no efficiencies or other benefits could be gained by establishing a separate Nomination Committee. However, it is noted the Board has adopted a Nomination Committee Charter.
2.5	Companies should disclose the process for evaluating the performance of the Board, its committee and individual Directors.	The Board did not undertake a formal process for the evaluation of the board, individual Directors or committees during the financial year.	The Board plans to undertake a formal process process for evaluating the performance of the Board, its committee and individual Directors in the coming financial year.
3.2	Companies should establish a diversity policy and include measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	The Board has not adopted a formal diversity policy.	Given the present size of the Company, the Board has not adopted a Diversity Policy. The Board believes no efficiencies or other benefits could be gained by establishing a formal Diversity Policy. The Board will consider the adoption of a formal Diversity Policy if deemed appropriate in future given the size of the Company, the Board, the workforce and the activities of the Company. It is noted that the Company recognises the benefits arising from employee and Board diversity, including a broader pool of high quality employees, improving employee retention, accessing different perspectives and ideas and benefiting from all available talent.

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Principle No.	Best Practice Recommendation	Compliance	Reasons for Non-compliance
3.3	Companies should disclose achievement of measurable objectives for gender diversity.	Given the size of the Company, no measurable objectives for achieving gender diversity have been set.	Whilst no measurable objectives have been set for achieving gender diversity, the Company has disclosed in this Annual Report the proportion of women employees in the Company, in senior executive positions and on the Board. The Board will consider the setting of measurable objectives for achieving gender diversity as the size of the Company, Board, workforce and the activity of the Company increase.
4.2	The Audit Committee should be structured so that it consists only of non-executive directors, consists of a majority of independent directors, is chaired by an independent chair, who is not the chair of the board and has at least three members.	The Audit Committee currently only has two members.	The Board believes that given the Board and the Company's size, no efficiencies or other benefits could be gained by establishing a larger Audit Committee. It is noted that the members of the Audit Committee possess the relevant experience and financial literacy appropriate for their position as a member of the Audit Committee.

## A D D I T I O N A L   A S X   I N F O R M A T I O N

The following additional information is required by the Australian Securities Exchange. The information is current as at 20 March 2013.

(a) Distribution schedule and number of holders of equity securities as at 20 March 2013

	1 – 1,000	1,001 – 5,000	5,001 – 10,000	10,001 – 100,000	100,001 – and over	Total
Fully Paid Ordinary Shares (ATP)	125	455	351	948	321	2,200
Unlisted Options – 5c 29/1/14	59	147	97	190	39	532
Convertible Notes	-	-	-	1	2	3

The number of holders holding less than a marketable parcel of fully paid ordinary shares as at 20 March 2013 is 938.

(b) 20 Largest holders of quoted equity securities as at 20 March 2013

The names of the twenty largest holders of fully paid ordinary shares (ASX code: ATP) as at 20 March 2013 are:

Rank	Name	Shares	% of Total Shares
1	RAINTREE PEARLS & PERFUMES PTY LTD	19,883,997	6.96
2	CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	19,200,000	6.72
3	SP & K BIRKBECK HOLDINGS PTY LTD <SP & K BIRKBECK S/F A/C>	16,225,030	5.68
4	JINGIE INVESTMENTS PTY LTD	12,771,600	4.47
5	WARMAN (NOMINEES) PTY LIMITED <WARMAN INVEST A/C>	12,041,673	4.21
6	ABERMAC PTY LTD <RAMAC A/C>	10,833,333	3.79
7	QUIET VOICE LIMITED	8,000,000	2.80
8	FARJOY PTY LTD	7,099,412	2.48
9	ATLAS PEARL EMPLOYEE SHARE PLAN PTY LTD <EMPLOYEE SALARY SACRIFICE SHARE PLAN & NED FEE SACRIFICE SHARE PLAN>	5,941,616	2.08
10	MR CHRIS CARR + MRS BETSY CARR	5,000,000	1.75
11	FIVE TALENTS LIMITED	4,220,000	1.48
12	COAKLEY PASTORAL CO PTY LTD <TIM COAKLEY SUPER FUND A/C>	4,000,000	1.40
13	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	3,974,255	1.39
14	BYRON BAY CELEBRANT PTY LTD <C & L DEAN SUPER FUND A/C>	3,970,589	1.39
15	DORRAN PTY LTD	3,000,000	1.05
16	QUEENSRIDGE INVESTMENTS PTY LTD <GLEESON SUPERANNUATION FUND A/C>	3,000,000	1.05
17	MR PAUL FRANCIS MURRAY	2,620,000	0.92
18	FITZPATRICK (WA) PTY LTD	2,463,700	0.86
19	MR TIMOTHY JAMES MARTIN	2,400,000	0.84
20	NEJEKA PTY LTD <MANSFIELD SUPER FUND A/C>	2,400,000	0.84
	TOTAL	149,045,205	52.17

Stock Exchange Listing – Listing has been granted for 285,694,599 fully paid ordinary shares of the Company on issue on the Australian

## A D D I T I O N A L   A S X   I N F O R M A T I O N

Securities Exchange.

The unquoted securities on issue as at 20 March 2013 are detailed below in part (d).

(c) Substantial shareholders

The substantial shareholders in Atlas Pearls and Perfumes Ltd as at 20 March 2013 are detailed below -

Name	Shares	% of Total Shares
RAINTREE PEARLS & PERFUMES PTY LTD & ASSOCIATES *	36,109,027	12.64
W. G. MARTIN & ASSOCIATES **	31,971,600	11.19
T. J. MARTIN & ASSOCIATES ***	16,628,145	5.82

\* Includes shares held by Raintree Pearls & Perfumes Pty Ltd and SP & K Birkbeck Holdings Pty Ltd <SP & K Birkbeck S/F A/C>.

\*\* Includes shares held by Chemco Superannuation Fund Pty Ltd <Chemco Super Fund No 2 A/C> and Jingie Investments Pty Ltd.

\*\*\* Includes shares held by Timothy James Martin and Jingie Investments Pty Ltd.

(d) Unquoted Securities

The number of unquoted securities on issue as at 20 March 2013:

Security	Number on issue
Unlisted options exercisable at 5 cents, on or before 29 January 2014.	31,253,826
Convertible notes.	950,000

(e) Names of persons holding more than 20% of a given class of unquoted securities as at 20 March 2013

Security	Holder Name	Number of Securities	% Held
Convertible notes	Chemco Superannuation Fund Pty Ltd <Chemco Superannuation Fund>	500,000	52.6%
Convertible notes	Abermac Pty Ltd <Ramac A/C>	350,000	36.8%

(f) Restricted Securities as at 20 March 2013

There were no restricted securities on issue as at 20 March 2013.

(g) Voting Rights

All fully paid ordinary shares carry one vote per ordinary share without restriction.

Unquoted options and convertible notes have no voting rights.

(h) Company Secretary

The Joint Company Secretaries are Mr Stephen Gleeson and Ms Susan Hunter.

## A D D I T I O N A L   A S X   I N F O R M A T I O N

(i) Registered Office

The Company's Registered Office is 47 - 49 Bay View Terrace, Claremont, Western Australia 6010.

Telephone: +61 8 9284 4249

Facsimile: +61 8 9284 3031

(j) Share Registry

The Company's Share Registry is Computershare Investor Services Pty Ltd of Level 2, 45 St Georges Terrace, Perth WA 6000.

Telephone: 1300 557 010 (from within Australia); +61 3 9415 4000 (from outside Australia).

(k) On-Market Buy-back

The Company is not currently performing an on-market buy-back.

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# ATLAS

PEARLS AND PERFUMES

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