



ABN 32 009 220 053

## ASX RELEASE

ASX: ATP

27 February 2012

The Manager  
Australian Securities Exchange  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

### Preliminary Final Report – FY11

The Board is pleased to announce that its gross revenue has increased by 79% from \$6.908m in 2009 to \$12.350m in FY11 with a 71% improvement in normalised earnings before interest, tax, depreciation and amortisation as compared to FY10. These revenue achievements are supported by an increase in net tangible assets now exceeding 14 cents per share to \$20.235m. A summary of the full accounts attached for the final year preliminary unaudited financial results for the year ended 31 December 2011 compared to the previous two years is as follows:

\$'000	FY11	FY10	FY09
<b>Revenue from continuing operation</b>	12,350	9,842	6,908
<b>Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA)</b>	1,538	897	(1,127)
<b>EBITDA margin</b>	12.1%	8.8%	N/A
<b>Depreciation &amp; amortisation</b>	(121)	(54)	(74)
<b>Foreign exchange gains/(losses)</b>	(919)	(412)	2,043
<b>Revaluation of Agriculture Assets (oysters and pearls)</b>	962	2,719	(7,272)
<b>Other non-operating costs</b>	(115)	(214)	(986)
<b>Earnings before interest and tax (EBIT)</b>	1,309	2,987	(7,416)
<b>EBIT margin</b>	10.6%	30.3%	N/A
<b>Finance/interest net costs</b>	(248)	(154)	(96)
<b>Income tax gain/(expense)</b>	(553)	(395)	330
<b>Net profit after tax (NPAT)</b>	544	2,387	(7,182)
<b>Earnings per share (cents)</b>	0.39	1.91	(6.25)
<b>Assets</b>	30,753	26,249	24,400
<b>Debt</b>	5,720	3,596	4,272
<b>Shareholder funds</b>	20,235	19,018	16,310
<b>Debt/shareholder funds (%)</b>	28%	19%	26%
<b>Number of shares on issue (million)</b>	142.858	136.358	125.483

Although improvements have been achieved in terms of gross revenue and normalised EBITDA from the prior year, the FY11 result is overshadowed by the sales and marketing outlook in the global luxury industry and the need for Atlas to build greater capital reserves. These reserves would allow the company to hold higher levels of pearls and withstand seasonal fluctuations in demand thereby reducing the risk of having to sell down stock at substantial discounts as was the case in the last month of 2011.

A management restructure in January 2012 has seen a substantial reduction in operating costs achieved through a focus on quality of production and rationalisation of shipping between the Atlas pearl farms.

## **1. Current market status**

The European sentiment has put pressure on the trading of pearls in the wholesale export market with an unexpected impact in the last quarter of 2011. Atlas is situated at the bottom of the supply chain and this combined with low cash reserves and weak market sentiment contributed to lower pearl prices and pressure on the Company's cash flow. In February 2012, the Company announced a Rights Issue to raise up to \$4.2M.

Atlas has continued to make sales in Q1 2012 and prices are improved from Q4 2011. Supply pressures from large pearl inventories held by the bigger global producers are likely to contain any substantial price increases in the short term, however, there has been a considerable reduction in pearl production over the past two years and this should start affecting supply as inventories reduce.

## **2. Banking Support**

**Banking support and available funds has improved since the 31st December 2011.**

The Commonwealth Bank has confirmed its support to maintain existing facilities for a three year period and has provided support in the form of an additional \$200,000 short-term facility confirmed in the week ending the Friday 17<sup>th</sup> of February. As at the date of this report the available drawings on the existing facility from 31<sup>st</sup> December 2011 has improved from \$131,773 to \$521,954.

## **3. Review Findings**

The Atlas core business is sound and has clear competitive advantages. A focus on farm strategy and culture on quality as the key driver of growth is in place. Concentrating effort and resources on production of high quality oysters will result in improved returns on investment. The Atlas leadership team is focused on productivity gains in HR management, fiscal reporting, cost management, branding, CAPEX decision making and selling methods.

## **4. Cost Savings**

Atlas has been working to achieve a doubling of its production. In the last two years Atlas has acquired pearl farms in new locations and the company is now carrying record numbers of oysters in the water. Expenditure in the last eighteen months has been directed towards the development of the existing and new farm sites to cater for the planned increase in oyster numbers.

In January the Board identified key strategic drivers in important data that has led to the conclusion that we can generate substantially higher quality production at younger harvest ages, offering per unit revenue gains, significant cost savings and capital savings as part of the Atlas expansion plan.

Cash flow savings of \$1.5m- \$2m have been made to date from:-

- 1) Changes in HR and salary sacrifices.
- 2) General expenditure cuts.
- 3) R & D and business development deferral.

Transport and pearl growing make up 58% of total costs and we have identified rationalising our sites and management standard operating procedures (S.O.P's) as pathways to providing immediate and substantial cost savings. This is work in progress and while no savings are included in current forecasts it is estimated that there will be additional \$500,000 reduction in expenses and consequent shrinkage of Atlas's carbon footprint.

## **5. Quality improvement through superior oyster selection**

An immediate priority has been made to consolidate the group's global competitive advantage on the production of first operation harvested pearls. Atlas will focus on quality and further efficiency in production costs

Within the production cycle there is scope for greater selectivity of our juvenile oyster output. This selection has been made possible through the company's genetic research completed over the last 8 years. When combined with farm husbandry systems, centred around the collation and implementation of key data, Atlas has the systems to provide management with the tools to become even more selective on the selection of superior juveniles and oysters at key points in the lifecycle of its livestock.

The outcome of this will be substantially higher value pearls from fewer oysters. An important by product of this approach will be a reduction to current and future production costs and capital expansion costs.

## **6. Sales**

Of critical importance is the need to fast-track a range of existing sales, marketing, product development and branding positions built during 2010-2011. Demand in the wholesale market for Atlas jewellery is building with the first major sale to a jewellery chain achieved and roll out scheduled for April 2012.

## **7. Industry outlook and overview**

In the 1980's the world saw the diamond industry go through a similar counter cycle commodity rationalisation. Pearling over the course of 2009-2011 has encountered its own unique challenges. With prices at significantly lower levels than prior to the global crisis of 2008, producers of *Pinctada maxima* that are not able to establish a strong marketing presence combined with cost effective, high quality production, have now been removed from the supply chain. Sustained price pressure could see more pearl farming ventures close or scale back operations and it will further define the characteristics of those that survive.

Atlas acquired a series of new farms through the Nusa Tenggara Timur chain of Islands in 2010 and is midway through the CAPEX upgrade of these sites and construction of a third hatchery to open in August 2012 that will deliver large efficiency and quality benefits starting in 2013. As at 2012 Atlas has grown its productive base and has a record number of oyster stock. With some of the most competitive costs of production in the world, Atlas will focus its teams' KPI's on increasing the proportion of quality white South Sea pearls, Atlas seeded over 619,000 oysters in 2011, a record for the company. Atlas is in the top 5 producers of South Sea pearls by value in the world.

## **8. Global Competitive Advantage**

### **A. Juxtaposition of low costs and high quality production.**

Atlas is moving towards lowering its cost of goods further as a result of improved economies of scale and also through increased production efficiency – producing a higher proportion of quality pearls through superior oyster selection. Australian pearling production costs are substantially higher in Indonesia and Philippines. By increasing its sellable proportion, ensuring that the pearls it produces are of a larger size (average Indonesian pearls are significantly smaller than Atlas pearls) and improving the overall shape profile, Atlas has a global competitive advantage in the production of pearls of a 10-14 mm size.

### **B. Genetics and Indonesian farm systems.**

With 20 years experience in Indonesian waters, Technical Director Dr Joseph Taylor is one of the world's pre-eminent experts on pearling. Dr Taylor's scientific training is complimented with his fluent Indonesian language and cultural skills and proven ability to operate farms in isolated waters through-out Indonesian waters. Dr Taylor continues to work closely with Jan Jorgenson through a combination of expertise and vision.

### **C. Atlas South Sea Pearl's "*Perl'ECO CSR Standards*"**

Atlas is developing the Atlas Perl' ECO (Environmental Custodianship of Oceans) vision as worlds best practice. The strategy will be to get new sales and customers higher in the supply chain willing to pay a premium to ensure that farming practices are ethical and environmentally sustainable.

Beyond these fundamental advantages, Atlas is furthering its competitive advantage through;

**Value Adding** Taking less desirable pearl types and packaging these in the form of selected strands, jewellery or complimentary commercial products will ensure that improved value is achieved. Increasing the by-product returns will also improve future performance of the company.

**Signature** Technology from pharmaceutical groups in France is being trialled to extract key protein markers from pearl nacre and re-inject these compounds alongside selective marine extracts to establish provenance credentials for Atlas pearls.

- Extraction** Propriety technology developed over the last five years on nacre was acquired by Atlas in 2011. This has been used to successfully open up the French export market for pearl powders and extracts to be sold for use in cosmetics and pharmaceuticals sector, ensuring that the by-product is value added significantly.
- Performance** A culture of performance is being introduced with the leadership group participating in this rights issue.
- Luxury** Moving Atlas towards the top of the supply chain through restructuring marketing strategy.

## **Conclusion**

Atlas South Sea Pearl Ltd continues to enjoy the support of its cornerstone investors, banker and suppliers. Market conditions have gone against the company in recent years but this has created opportunity with Atlas becoming more efficient in both marketing and production context to ensure it builds barriers to entry to competitors. Atlas is well placed to capitalise on future market improvements as the global economy stabilises.

I would invite all shareholders to participate in the raising of capital in the March Rights Issue, please note that at 5 cents it is at a substantial discount to net assets of over 14 cents a share. Our team is at your disposal to answer any questions that may arise out of this document.

Yours sincerely

**Stephen Birkbeck**  
**CEO**

## **About Atlas**

Atlas South Sea Pearl Limited ("Atlas", ASX: ATP) is an Australian based pearling business established in 1992. Atlas has earned an enviable reputation as a world leading pearl producer of "nature's most precious gift", the South Sea pearl, specialising in highly sought after white and silver pearls. Atlas operates pearl farms spread across the Indonesian archipelago including Bali, Flores, Alor and Papua. Atlas is a fully integrated pearling business with its own high quality grading and loose pearl distribution business, a jewellery manufacturing capability and sales direct to customers through its Bali based retail outlets and new flagship store in Perth.

## **DISCLAIMER**

### **Reliance on Third Party Information**

The views expressed herein contain information that has been derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. This presentation should not be relied upon as a recommendation or forecast by Atlas South Sea Pearl Ltd.

### **Forward Looking Statements**

This presentation may contain, in addition to historical information, certain forward-looking statements regarding future events, conditions, circumstances or the future financial performance of Atlas South Sea Pearl Ltd and their affiliates, (collectively, the "Atlas Group"). Often, but not always, forward-looking statements can be identified by the use of words such as "plans," "expects," "expected," "scheduled," "estimates," "intends," "anticipates" or "believes," or variations of such words and phrases or state that certain actions, events, conditions, circumstances or results "may," "could," "would," "might" or "will" be taken, occur or be achieved. Such forward-looking statements are not guarantees or predictions of future performance, and are subject to known and unknown risks, uncertainties and other factors, many of which are beyond our control, that could cause actual results, performance or achievements of any member of the Atlas Group to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. More detail on those risks may be found in our Offer Document dated 7 February 2012, Section E "Risk factors", filed with the Australian Securities Exchange. Such risks and uncertainties also include: (i) beliefs and assumptions relating to available capital resources generally, (ii) anticipated liquidity in the markets in which Atlas South Sea Pearl Ltd's shares transact, including the extent to which such liquidity could be affected by poor economic and financial market conditions or new regulations and any resulting impacts on financial institutions and other current and potential counterparties, (iii) beliefs and assumptions about market competition and the behavior of other participants in the pearling industry, (iv) projected operating or financial results, including anticipated cash flows from operations, revenues and profitability and (v) expectations and estimates regarding capital and operating expenditures. Many of these risks and uncertainties relate to factors that are beyond the Atlas Group's ability to control or estimate precisely, and any or all of the Atlas Group's forward-looking statements may turn out to be wrong. The Atlas Group cannot give any assurance that such forward-looking statements will prove to have been correct. The reader is cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The Atlas Group disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, conditions, circumstances or otherwise, except as required by applicable law.

Nothing contained herein shall be deemed to be a forecast, projection or estimate of the future financial performance of any member of the Atlas Group.

### **No Offer of Securities**

Nothing in this presentation should be construed as either an offer to sell or a solicitation of an offer to buy or sell Atlas South Sea Pearl Ltd securities in any jurisdiction.