

ATLAS

PEARLS AND PERFUMES

ABN 32 009 220 053

Appendix 4D

Half Year Report

Name of entity

ATLAS PEARLS AND PERFUMES LTD

ABN

Half
Yearly

Preliminary
final

Half Year ended

32 009 220 053

☐

31 December 2014

Results for announcement to the market

The information in this report should be read in conjunction with the most recent annual financial report. The reporting period and previous corresponding period are 31 December 2014 and 31 December 2013.

Revenue from ordinary activities	down	-36%	To	5,965,311
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Net profit from the period attributable to members	down	-3424%	To	(6,967,115)
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Normalised EBITDA	down	-178%	To	(1,540,510)
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Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil c	Nil c
Interim dividend		
Previous corresponding period	Nil c	Nil c
Net Tangible Asset backing	Current period	Previous corresponding period
Net Tangible Asset backing	6.7c	8.7c

Signed by:



Print name: Geoff Newman

Date: 25 February 2015



ATLAS PEARLS AND PERFUMES LTD

A.B.N. 32 009 220 053

INTERIM FINANCIAL REPORT

31 DECEMBER 2014

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2014

Your Directors present their report on the consolidated entity, consisting of Atlas Pearls and Perfumes Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

Directors

The following persons were directors of Atlas Pearls and Perfumes Ltd during the whole of the half-year and up to the date of this report:

Name	Period of Directorship
Stephen Paul Birkbeck <i>Chairman & Executive Officer</i>	Director since 15 April 2005. Resigned as a director 11 February 2015. Appointed Chairman 21 December 2009. Resigned as Chairman 11 February 2015. Appointed Chief Executive Officer 16 January 2012. Resigned as Chief Executive Officer on 25 November 2014.
Joseph James Uel Taylor, B.Sc. (Biology), Ph.D. <i>Non-Executive Director</i>	Director since 13 September 2000 Resigned as director 11 February 2015.
Geoff Newman, B.Ec (Hons), M.B.A, F.C.P.A , F.A.I.C.D <i>Chairman</i>	Director since 15 October 2010 Appointed Chairman 11 February 2015
Timothy James Martin, B.Arts, M.B.A, G.A.I.C.D <i>Independent Non-Executive Director</i>	Director since 4 February 2013
Stephen John Arrow <i>Independent Non-Executive Director</i>	Director since 2 January 2014
Nelson Rocher <i>Alternate Director to Stephen Paul Birkbeck</i>	Director since 18 July 2014 Resigned as an alternate director for Stephen Paul Birkbeck 11 February 2015.

REVIEW OF OPERATIONS

The activities of the economic entity are:

1. the management of a pearl farming business in Indonesia, and
2. the operation of a pearl jewellery manufacturing and distribution business,
3. the operation of an essential oils business in Tasmania,
4. the operation of a cosmetics business in Australia.

There have been no significant changes in the operational activities of the economic entity since the last year-end report.

1. Financial Result

Atlas issued the Group's first half-year at 31 December 2013. The comparative numbers presented in these accounts are the six months ended 31 December 2013 for profit and loss related comparatives and 30 June 2014 for consolidated statement of financial position comparatives.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

1. Financial Result (Cont.)

Summary of financial results

The six months ended 31 December 2014 has proven a challenging period for the company with lower than forecast revenues from pearl sales being earned impacting on financial results and cash flow. The Company has focused its efforts during this period on consolidating oyster stock holdings, reviewing harvest schedules and expectations, implementing cost cutting measures, and re-focusing on core operations.

	Half-Year			
	6 Months Ended 31 Dec 2014 \$	6 Months Ended 31 Dec 2013 \$	Change	%
Total revenue from continuing operations	5,965,311	9,282,195	Down	-36
Profit/(loss) from continuing operations after tax	(6,967,115)	209,605	Down	-3424
Normalised Earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)*	(1,540,510)	1,965,805	Down	-178

* Normalised EBITDA (unaudited) excludes foreign exchange and agricultural asset revaluation movements. Normalised EBITDA is adopted by the Group which represents the normal on-going realised earnings of the Group.

Reconciliation of Normalised EBITDA to Loss for the Half-Year (Consolidated Statement of Profit or Loss and Other Comprehensive Income)

Loss for the Half-Year	(\$6,967,115)
Less: Net Forex (gain)	(\$430,148)
Add: Net Interest	\$231,174
Add: Depreciation/Amortisation	\$198,576
Less: Income tax (refund)	(\$2,953,300)
Add: Other non-operating expense	\$130,530
Add: Inventory adjustments	\$342
Less: Derivative instruments (gain) unrealised	(\$69,760)
Add: Revaluation of Biological Assets and Inventory	\$8,319,191
Normalised EBITDA	(\$1,540,510)

a. Explanation of financial results

Loose Pearls Sales Revenue was \$4,040,945 for the six month ended 31 December 2014, \$2,498,430 less than the 31 December 2013 comparative 6 month period. Essential oil sales were \$799,619 during the six months ended 31 December 2014; (6 months ended 31 December 2013 - \$1.1m). There has been a decrease in the net assets of the Group of \$6.6M in the six months to 31 December 2014, the primary driver of this reduction being a \$7M reduction in the carrying value of oysters following the agricultural asset revaluation. Movements in the net worth of the economic entity are summarised below:

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

1. Financial Result (Cont.)

Summary of financial results cont.

a. Explanation of financial results

- Cash reserves increased to \$1.8M (30 June 2014 - \$1.7M) at 31 December 2014. During the six months ended 31 December 2014 core debt has increased \$1m to \$6.2m (30 June 2014 - \$5.2m)
- Trade receivables decreased to \$1.3M at 31 December 2014.
- Oyster asset values decreased by \$7M during the six months ended 31 December 2014. This is due to a downwards revision of the weights expected to be harvested, a revision of the sellable % and Yen/Momme price based on actual harvest and sales results achieved over the last six months. The valuation also takes into consideration the expected quality of stock to be harvested in the next two years. The total change in fair value less husbandry costs of oysters during the six months ended 31 December 2014 was \$5.9M.
- Pearls on hand have increased from 52,576 at 30 June 2014 to 84,331 at 31 December 2014; the net realisable value decreased from \$1.07M at 30 June 2014 to \$0.7M at 31 December 2014. A write-off of \$2.5M was recognised in relation to pearls costs for the period as inventory is required to be valued at the lower of cost and net realisable value.
- A provision for obsolescence of \$823k has been booked against the carrying value of jewellery inventory. Jewellery inventory was \$3.0M as at 31 December 2014, up slightly from \$2.9M at 30 June 2014. Taking into account the provision in place, the net carrying value at 31 Dec 14 is \$2.2m.
- Essential oil finished product made up \$1.38M of the inventory balance at 31 December 2014 compared to \$1.35M at 30 June 2014. Essential Oils of Tasmania's crops made up \$1.39M of the total biological assets balance at 31 December 2014 (\$1.1M at 30 June 2014).
- Property plant and equipment increased to \$5.4M at 31 December 2014 from \$4.4M at 30 June 2014.

b. Operating Results

Atlas recorded a net loss after tax for the period ended 31 December 2014 of \$6.9M, a decrease of \$7.2M on the 6 month to 31 December 2013 period (31 Dec 2013 – net profit after tax of \$0.2M).

c. Net Tangible Assets

The Company's net tangible assets per share were \$0.067 as at 31 December 2014, which has decreased on 30 June 2014 results (30 June 2014 net tangible assets per share at \$0.087). The number of shares has increased to 328,616,452 from 326,616,452 at 30 June 2014, whilst the net tangible asset position has fallen from \$28.4m at 30 June 2014 to \$21.8m at 31 Dec 14.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

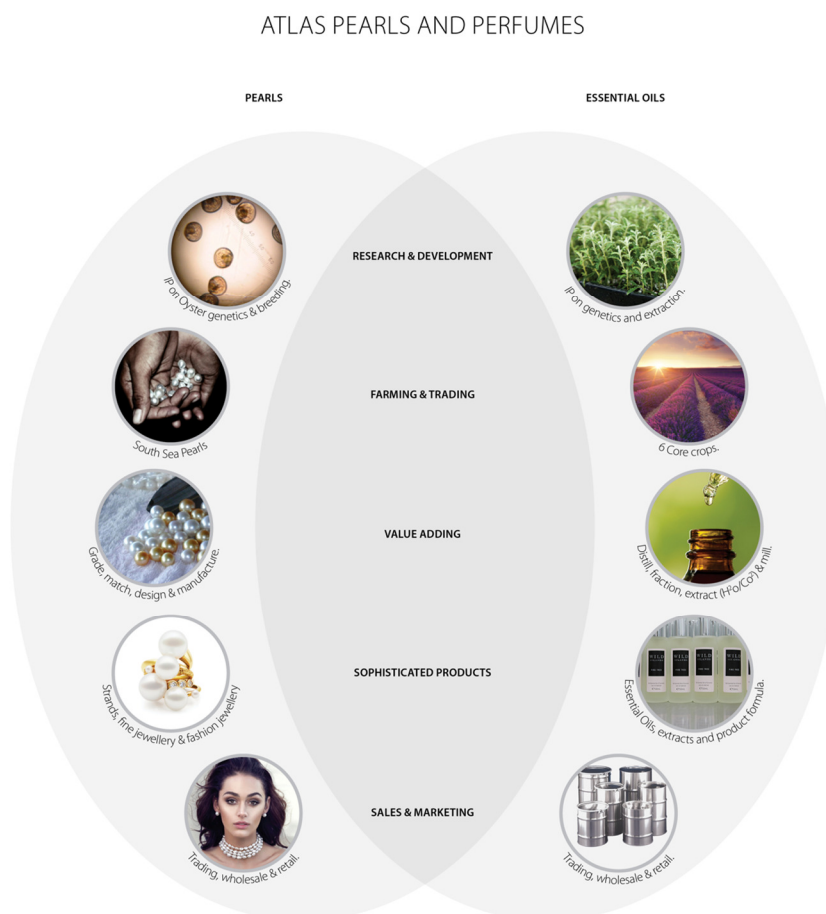
DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

2. Activities overview

On the 24th of October at the Western Australian Industry and Export Awards in Perth, Atlas won both the Innovation Award and Agribusiness Export Award. These Awards recognise Atlas' increased exports, export market development of pearl sales with our international auction system, diversified luxury export revenues from Tasmanian perfume and flavour crops, worlds' best practice in terms of Corporate Social Responsibility, and our bio-technology breakthroughs on pearl powered cosmeceuticals and perfumes. These awards reconfirm the direction that the Group is taking.

From being a single product (pearls) focused company, Atlas successfully diversified into value adding and process optimisation (perfumes) with the clear objective to become market driven and serve solid underlying demand along the luxury value chain (pearls and perfumes).



To further reinforce the natural value creation synergies between its pearl and perfume operations, Atlas is undertaking a Group and retail offer clarification exercise with Centdegres, a famous French retail design and branding agency based in Paris.

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

3. Pearling Operations Update

a. Smaller Pearls in 2014-15:

Results of routine pre-harvest sampling in August 2014, later confirmed by harvest analysis in October and November indicated to Management the strong likelihood of harvesting smaller pearls than historical average over the course of the 2014-15 fiscal years (approximately 15% down on the prior period). Although the number of pearls to be harvested is consistent with projections, the anticipated reduced harvest weight is expected to reduce pearling revenue for the 12 months ended 30 June 2015 by 15%.

It is anticipated that the majority of the concerned shells and pearls will be harvested by 30 June 2015, and that the average size and weight will return to long-term historical averages during the financial year ended 30 June 2016.

The new management team appointed in early 2014 and on site since June 2014 have implemented a series of production protocol realignments and controls, to ensure that in the current more favourable market conditions attention is focused on quality and size so that the investments into new pearling sites, research and development, as well as human resources, initiated over the past 4 years bear the expected quality pearls and revenue growth.

b. A Long Cycle:

Pearl farming is a 5 years business cycle, along which each animal is manipulated over 600 times. Each event occurring throughout the life of the shell is recorded in the pearl. Genetically superior host shells can provide faster growing/ stronger animals, while donor oysters will determine the colour and nacre deposition growth of the pearl.

It is a subtle combination of the right shell gene pool, amount of shell care, appropriate seeding skills and patience that will provide the best yield. All of these have to be adjusted to the local and global environment as well as local configuration; the former can vary from year to year, while the later can take years to fully understand.

Beyond harvesting, grading and the ability to assemble batches of consistent and matching pearls as well as the ability to go to market at the right time can also significantly add value.



Modern pearl farming is made up of production sequences that are intimately connected. It is the agility or the ability to positively react to a constantly changing environment that determines the success of sustainable pearl ventures.

c. Pearling Core Business and Philosophy - A Long Value Chain:

First and foremost, customers form the epicentre of our business model. Atlas is positioning itself to continue capturing current strong demand and price uplift from Asia and the re-emerging North American market.

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

3. Pearling Operations Update (cont.)

c. Pearling Core Business and Philosophy - A Long Value Chain cont.

Secondly, producing superior quality pearls is the only way to address either an upswing or downswing in demand. Only the best shells will be presented within the right seeding windows and given the appropriate cultivation period. Our strong focus on commercialisation and value adding will be reinforced.

Atlas will keep promoting its key R&D collaborative projects with James Cook University (JCU), and other relevant institutions to maintain its competitive advantage. As part of its social mandate, Atlas will continue acquiring and transferring skills and knowledge and promote the wellbeing of the communities its operations are based around.

d. Research and Development:

The Group is pleased to be undertaking with JCU the next Arc Linkage Project; "Advanced animal breeding in aquaculture: using genome-wide molecular breeding values for rapid animal improvement in the silver-lipped pearl oyster". This project will run for a period of 3 years commencing in February 2015 and will further advance the intellectual property that the Group has developed in relation to its oyster breeding program.

The primary impediment to achieving rapid genetic progress in aquaculture is an inability to accurately and rapidly identify high-performance animals for selection as parents in animal breeding programs. This project aims to develop an innovative genomic selection breeding system for the silver-lipped pearl oyster to overcome current limitations associated with traditional animal improvement methods. The use of genomic selection will not only transform the Australian pearl oyster industry, but it will also showcase the potential of genomic selection in aquaculture globally.

e. Hatchery:

Spat (juvenile) production for the 2014/15 season is on target. Spawning facilities are also being upgraded to improve survival rates. Progressive R&D output benefits under the partnership with JCU will further enhance the capacity to select the most suitable parent oysters for pearling and trigger benefits in cultivation period and pearl quality.

f. Grow-Out:

The Group continues to operate five pearl farms: Penyabangan (North Bali); Lembata (Flores); Alor (East Nusa Tenggara); Alyui (West Papua), and Punggu (Flores). Of these five farms, two operate as technical hubs and growout facilities; Penyabangan (North Bali) and Lembata (Flores).

The Atlas Pearls and Perfumes Ltd R&D team have also been undergoing trials at Lembata (2nd technical hub) to improve mortality rates by using different growing techniques. These new techniques minimise the need for intervention during the stressful stage of spat development and have historically resulted in major improvement in survival rates.

The Group has recently secured a new water lease in the village of Nuri (south of Larantuka, East Flores). The site offers a diverse environment for spat to pearl cultivation. The Group will ensure that existing sites are operating at maximum capacity and efficiency before looking to develop this new site.

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

3. Pearling Operations Update (cont.)
 - f. Grow-Out cont.



One of the core competences of the Group on risk mitigation is to efficiently manage the distance between specialised production sites. Grow-out sites which are labour intensive are linked to pearl farming remote and nutrient rich sites, by a fleet of specialised vessels that allow oysters to be moved around in order to maximize the sites shell management capacity.

In February 2015 we welcomed to our fleet of vessels a new, state of the art purpose built ship, designed for oyster transportation; the KM Poernomo. This new vessel will reduce the time between seeding and delivery to less than three months. The vessel will be fully operational in March 15, in time for the main seeding window.

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

3. Pearling Operations Update (cont.)



The “KM Poernomo”

g. Seeding:

Following an internal audit of stock systems, technician performance, and operation rooms, new policies are being implemented to improve retention rates, pearl size and quality.

Management has also been trialling the use of seeding rafts which enable seeded oysters to be returned to the ocean faster than had they been seeded on land. Health check dives on oysters seeded on the rafts already show signs of faster return to the normal feeding process. The new ship KM Poernomo has been fitted with a seeding deck to further increase efficiencies.

Technicians and operation rooms have also undergone a complete review. Technicians will be provided with additional training by an independent expert. Operation rooms will be upgraded to further reduce the threat of bacterial infection.

h. Pearl Farming:

The remaining three farms operate as pearl farms; that is they grow seeded oysters. The farms that operate as a pearl farm exhibit the conditions (currents, nutrients in the water etc.) that are required to grow healthy pearls. These conditions are different to those required to grow a virgin oyster.

**DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

REVIEW OF OPERATIONS CONT.

3. Pearling Operations Update (cont.)

i. Harvesting:

The agreed upon direction is to harvest at optimal time all pearls from a particular batch and proceed with second operation (second seeding with same shell) the oysters that provide the best pearls.

Sample harvests will take place 3 months prior to the intended harvest date, with the objective of fine tuning harvest timing, provide better harvest value indication, and allow optimum second operation. In prior periods cash-flow restraints have often driven when harvests occur. To maximise value the harvest of under 22 month old stock will be avoided.

Pearling management have identified opportunities for joint ventures with partners-farmers throughout the value chain under the forms of subcontracted grow-out and/or pearl farming of respectively juveniles or seeded shells. This will ensure Atlas' internal capacity is maximized while the benefit of extra shell availability is not lost, nor becomes a distraction from the core focus on Atlas "born and bred" quality pearls.

4. Trading Review

Atlas has experienced a consistent upward price trend for its' South Sea pearls over the past 18 months in a market with growing demand for pearls of consistent colour and lustre for which Atlas is known. The Company held two auctions at the Japan Pearl Centre in Kobe during the half-year ended 31 December 2014. Prices during this period on a comparable piece basis have increased by approximately 10% when compared to the June 2014 auction result. The recent prices achieved are more than 50% higher than when Atlas held its first auction in May 2012. There continues to be a high degree of confidence in the market to absorb strong prices in the long term. Short supply is also helping to boost prices.

The company continues to focus on producing fine quality white South Sea pearls in the 9-13mm size category.

Japanese buyers continue to offer the strongest prices for Atlas production, with China undoubtedly being the largest consumer of white South Sea pearls. The Company sees increasing opportunities in the North American markets as their economy continues to rebound.

5. Wholesale review

Atlas has continued to develop its distribution within the Australian market with a network of over one hundred regular wholesale, manufacturer and retail customers. This has resulted in an increased focus on strand and matched pair production, where greater margins may be realised.

Our Wholesale Jewellery Division continues to expand, with Pearl Distribution Manager Tim Jones relocating to the East Coast to further bolster sales. The Perl'eco brand continues to be sold through a national buying Group representing approximately three hundred retail outlets. These wholesale opportunities add diversity to our revenue base and further enhance our valued-added growth strategy.

6. Retail review

To further reinforce the natural value creation synergies between its pearl and perfumes operations, Atlas is undertaking a Group and retail offer clarification exercise with Centdegres, a famous retail design and branding agency in Paris.

To facilitate this process, Atlas has taken the preliminary steps towards rationalising its finished products inventory by way of selective mark-down, alternative distribution, jewellery conversion and eventually melting down obsolete designs in order to drastically reduce aging and/ or irrelevant inventory to make space for faster moving and aligned items.

**DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2014**

REVIEW OF OPERATIONS CONT.

6. Retail Review (cont.)

The design and manufacturing approach over the next few months will be two pronged: produce and promote limited edition jewellery capsules to give the opportunity to consumers to select and own unique creations and privilege "made in Bali" jewellery to further strengthen the skills and expertise set up in-house.

This exercise in better articulating Atlas's core and retail business combined with pearling finished products is not only intended to balance inventory levels while boosting sales, but also to better convey our message to end consumers, and open doors for business opportunities along the luxury value chain.

While this review of the Atlas brand is being undertaken, production of cosmetic lines has been intentionally delayed. We continue to undertake R&D into the efficacy of pearl extracts for use in cosmeceuticals.

7. Essential Oils of Tasmania

Atlas Pearls and Perfumes Ltd has successfully executed a Heads of Agreement for Tasmanian owned partner Westwood Properties Pty Ltd to invest in Essential Oils of Tasmania with the objective to jointly own the company and grow the business to the next level.

Atlas Pearls and Perfumes Ltd and Westwood Properties Pty Ltd already jointly own Brookfield Pty Ltd (50/50), an entity established to facilitate the operation of a tourism facility at Brookfield, Tasmania on land owned by Westwood Properties Pty Ltd.

The Company has negotiated a partial advance on Westwood Properties Pty Ltd's investment into EOT for A\$550,000. This advance is a short-term loan repayable within 45 days of drawdown. It does not attract interest and it is secured against the assets of EOT. The 45-day timeframe is intended to provide the Group with sufficient time to finalise a Share Holder Agreement.

Beyond the targeted synergies and cost savings, this new partnership is strategic in that it will ensure the alignment of interests between EOT and Westwood Properties Pty Ltd. It is the intention to relocate the current essential oils extraction facility to Brookfield, whilst providing EOT with a potential multi-million dollar fragrance and flavours industrial tourism platform.

Essential Oils of Tasmania has recently launched its first retail product range called Wild Islands. Wild Islands currently comprises of five fragrances developed by the renowned French perfumer Michel Roudnitska, using uniquely Tasmanian essential oil extracts. The perfumes have been produced and bottled by Essential Oils of Tasmania. The soft launch of the product at various tourism markets in Tasmania has been extremely successful and several tourist retail outlets around Hobart are now stocking the range. The Group is exploring avenues by which to further expand the product's route to market.

Essential Oils of Tasmania continues to work on new business lines utilising local by-products and exploring projects with unique value add propositions.

8. Operating Environments

a) Environmental

The Company strives to ensure that we work equitably with local communities, preserve and enhance biodiversity within the local environment and strive to mitigate risks associated with potential environmental changes such as climate and water quality. This is a long standing commitment and an invaluable investment.

The Company continues to promote its environmental awareness campaigns in and around the immediate areas of its farms. The Company has recently improved the recycling program on its farm sites that minimises waste sent to landfill and damage to the surrounding environment.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2014

REVIEW OF OPERATIONS CONT.

8. Operating Environments (Cont.)

The Company believes that the socio-political situation in Indonesia remains stable. Close contact with and support of local villages continues and is seen as a strong part of long term security for the business.

b) Personnel

Employee numbers have increased from last year as a result of growth. As of 31 December 2014, Atlas Pearls and Perfumes Ltd, its Retail subsidiary' Perl'eco Pty Ltd, its Tasmanian subsidiary' Essential Oils of Tasmania Pty Ltd, and its Indonesian subsidiary PT Cendana Indopearl employed 877 employees (June 2014: 941).

SIGNIFICANT CHANGES

On the 11th February 2015, the number of Directors on the Board reduced from 5 members to 3. Mr Steven Birkbeck resigned as Executive Chairman and Dr Joseph Taylor resigned as a Non-Executive Director. Nelson Rocher, Mr Birkbeck's Alternate Director, has also resigned but remains involved in Atlas' daily operations. Current Non-executive Director Mr Geoff Newman will assume the role of Chairman.

Also on 11th February 2015, Joint Company Secretary, Mr Stephen Gleeson, resigned from his position as Joint Company Secretary. He will retain his role as Managing Director Essential Oil of Tasmania. Chief Financial Officer Ms Danielle Brandenburg has been appointed Joint Company Secretary.

On the 12th February 2015, a \$500,000 bridging loan was secured from Jingie Investments Pty Ltd. The loan is unsecured and attracts an interest rate of 7%. The loan is repayable 6 months after the date of drawdown (or as otherwise agreed between the parties). Jingie Investments is a related party of Atlas Pearls and Perfumes Ltd director Tim Martin.

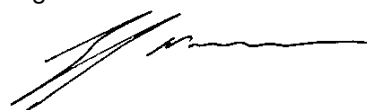
On the 17th February 2015, a 45 day short term loan to the value of \$550,000 was obtained from Westwood Properties Pty Ltd. The loan represents a partial advance on Westwood Properties Pty Ltd's investment into Essential Oils of Tasmania Pty Ltd, a subsidiary of Atlas Pearls and Perfumes Limited. The 45-day timeframe is intended to provide the Group with sufficient time to finalise a Share Holder Agreement.

On the 16th January 2015, a \$300,000 5 year term loan was received by Essential Oils of Tasmania Pty Ltd. Security is charged over specific plant and equipment owned by Essential Oils of Tasmania Pty Ltd to the value of the loan. Interest of 3.6% per annum is payable.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

Signed in accordance with a resolution of the Directors.



G Newman
Chairman
25 February 2015

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ATLAS PEARLS AND PERFUMES LTD

As lead auditor for the review of Atlas Pearls and Perfumes Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Glyn O'Brien

Partner

BDO Audit (WA) Pty Ltd

Perth, 25 February 2015

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

		6 Months Ending 31 Dec 2014	6 Months Ending 31 Dec 2013
	Note	\$	\$
Revenue from continuing operations	2	5,965,311	9,282,195
Cost of goods sold		(3,342,143)	(4,193,787)
Gross profit		2,623,168	5,088,408
Other income	2	1,074,610	271,620
Marketing expenses		(277,430)	(159,056)
Administration expenses	3	(4,124,714)	(3,188,092)
Finance costs	3	(257,575)	(310,667)
Other expenses	3	(639,283)	(275,312)
Change in fair value	3	(8,319,191)	(1,541,283)
(Loss) before income tax		(9,920,415)	(114,382)
Income tax benefit		2,953,300	323,987
Profit/(Loss) for the period from continuing operations after income tax		(6,967,115)	209,605
Other comprehensive (expenses)/income			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		(55,771)	22,400
Other comprehensive income/(expenses) for the period, net of tax		(55,771)	22,400
Total comprehensive income/(expenses) for the period		(7,022,886)	232,005
Profit/(loss) is attributable to:			
Owners of the Company		(6,967,115)	209,605
Total comprehensive income/(expenses) is attributable to:			
Owners of the Company		(7,022,886)	232,005
Overall operations :			
Earnings per share			
for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings/(loss) per share (cents)	4	(2.17)	0.07

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to and forming part of the half-year financial report.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

		31 Dec 2014	30 June 2014
		\$	\$
Current assets	Note		
Cash and cash equivalents		1,781,403	1,665,207
Trade and other receivables		1,309,861	3,020,985
Inventories	5	4,688,840	6,114,013
Biological assets	6	3,525,994	8,414,231
Total current assets		11,306,098	19,214,436
Non-current assets			
Intangibles		333,669	392,875
Loans joint venture entities		75,958	67,896
Equity accounted for investments		51,328	3,025
Inventories	5	176,215	132,093
Biological assets	6	10,219,904	12,011,412
Property, plant and equipment	7	5,400,453	4,401,274
Deferred tax assets		5,386,558	4,599,784
Total non-current assets		21,644,085	21,608,359
Total assets		32,950,183	40,822,795
Current liabilities			
Trade and other payables		2,439,983	3,141,549
Borrowings	8	6,061,301	5,014,791
Derivative financial instruments	11	740,919	852,323
Current tax liabilities		(572,096)	(94,060)
Short-term provisions		60,293	57,298
Total current liabilities		8,730,400	8,971,901
Non-current liabilities			
Borrowings	8	162,506	140,168
Deferred tax liabilities		1,826,401	2,901,397
Total non-current liabilities		1,988,907	3,041,565
Total liabilities		10,719,307	12,013,466
Net assets		22,230,876	28,809,329
Equity			
Contributed equity	13	32,468,512	32,153,001
Reserves		(7,963,053)	(8,036,205)
Retained profits/(accumulated reserves)		(2,274,583)	4,692,533
Total equity		22,230,876	28,809,329

The above-consolidated statement of financial position should be read in conjunction with the notes to and forming part of the half-year financial report.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Attributable to owners of Atlas Pearls and Perfumes Ltd				
	Contributed equity	Share based payment reserve	Foreign currency translation reserve	Retained profits/(accumulated reserves)	Total equity
	Note	\$	\$	\$	\$
Balance at 1 July 2013		30,203,033	581,029	(7,866,003)	25,796,669
Profit for the period		-	-	209,605	209,605
Exchange differences on translation of foreign operations		-	-	22,401	22,401
Total comprehensive income for the period		-	-	22,401	232,006
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs		421,615	-	-	421,615
Dividends provided for or paid		-	-	-	-
Employee share scheme		-	-	-	-
Acquisition of EOT		421,615	-	-	421,615
Balance at 31 December 2013		30,624,648	581,029	(7,843,602)	26,450,290
Balance at 1 July 2014		32,153,001	622,574	(8,658,779)	28,809,329
(Loss) for the period		-	-	(6,967,115)	(6,967,115)
Exchange differences on translation of foreign operations		-	-	(55,771)	(55,771)
Total comprehensive income for the period		-	-	(55,771)	(7,022,886)
Transactions with owners in their capacity as owners					
Contributions of equity, net of transaction costs	13	315,511	-	-	315,511
Dividends provided for or paid		-	-	-	-
Employee share scheme		-	128,922	-	128,922
		315,511	128,922	-	444,433
Balance at 31 December 2014		32,468,512	751,496	(8,714,549)	22,230,876

The above consolidated statement of changes in equity should be read in conjunction with the notes to and forming part of the half-year financial report.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

	6 Months Ending 31 Dec 2014 \$	6 Months Ending 31 Dec 2013 \$
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	6,944,175	7,701,859
Proceeds from essential oil sales	986,913	866,638
Proceeds from other operating activities	321,036	84,671
Interest paid	(121,017)	(91,659)
Interest received	1,820	9,329
Payments to suppliers and employees	(7,956,664)	(6,983,816)
Income tax refund received	265,506	287,884
Net cash provided by operating activities	<u>441,769</u>	<u>1,874,906</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(1,402,292)	(479,666)
Joint venture partnership contributions (paid)	(7,579)	(120,214)
Net cash (used in) investing activities	<u>(1,409,871)</u>	<u>(599,880)</u>
Cash flows from financing activities		
Proceeds from borrowings	1,079,589	-
Repayment of borrowings	-	(175,295)
Proceeds from issue of shares	50,000	407,615
Share transaction costs	(25,369)	-
Net cash provided by financing activities	<u>1,104,220</u>	<u>232,320</u>
Net increase in cash and cash equivalents	136,118	1,502,330
Cash and cash equivalents at the beginning of the financial period	1,665,207	1,767,156
Effects of exchange rate changes on cash and cash equivalents	(19,922)	4,926
Cash and cash equivalents at the end of the financial period	<u>1,781,403</u>	<u>3,274,412</u>

The above consolidated statement of cash flows should be read in conjunction with the notes to and forming part of the half-year financial report.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

1 BASIS OF PREPARATION OF HALF-YEAR REPORT

This consolidated interim financial report for the half-year reporting period ended 31 December 2014 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2014 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

There were no new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2014, which impacted the Group.

The Group has not elected to early adopt any new standards or amendments.

New Accounting Standards Issued Not Yet Effective:

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard*	Application Date for Group
AASB 9	Financial Instruments	Changes to classification and measurement requirements of financial instruments.	1 Jan 17	1 July 17
AASB 2013-9 (issued Dec 2013)	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	AASB 2013-9 makes three amendments to AASB 9	1 Jan 15	1 July 17

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 5 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 essential oils business is a producer and supplier of essential oils within the wholesale market.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

2. PROFIT FOR THE HALF-YEAR	Consolidated	
	6 Months Ending 31 Dec 2014	6 Months Ending 31 Dec 2013
	\$	\$
Sales Revenue		
Sale of goods	5,806,487	8,717,203
Other Revenue		
Interest income	1,820	9,329
Other revenues	157,004	555,663
Revenue	5,965,311	9,282,195
Other Income		
Foreign exchange gains realised	391,904	68,655
Foreign exchange gains unrealised	398,893	94,195
Grant funding	283,813	83,585
Insurance claim	-	15,417
Write back of dividend provision	-	9,768
Other Income	1,074,610	271,620

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

3. PROFIT BEFORE INCOME TAX FOR THE HALF-YEAR INCLUDES THE FOLLOWING SPECIFIC ITEMS	Consolidated	
	6 Months Ending 31 Dec 2014	6 Months Ending 31 Dec 2013
	\$	\$
Administration expenses from ordinary activities		
Salaries and wages	2,678,137	1,663,507
Depreciation property, plant and equipment	198,576	118,831
Operating costs	356,621	369,260
Compliance and finance	414,622	253,941
Other	476,758	782,553
	4,124,714	3,188,092
Other expenses		
Loss on foreign exchange realised	200,038	-
Loss on foreign exchange unrealised	54,572	-
Loss/(gain) on financial instruments unrealised	106,039	(14,479)
(Gain)/loss on derivative financial instruments	(69,760)	122,452
Provision for employee entitlements	163,223	(43,149)
Share of loss on joint ventures	130,530	173,614
Other	54,641	36,874
	639,283	275,312
Finance costs		
Interest and finance charges payable	257,575	310,667
	257,575	310,667
Change in fair value		
Change in fair value less husbandry costs of oysters and pearls	8,486,295	1,541,283
EOT Crop Revaluation	(167,104)	-
	8,319,191	1,541,283
Net loss/(profit) on foreign currency derivatives not qualifying as hedges	106,039	(14,479)

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

4. EARNINGS PER SHARE

	31 Dec 2014	31 Dec 2013
	cents	cents
Basic earnings/(loss) per share	(2.17)	0.07
Diluted earnings/(loss) per share	N/A	0.07
Earnings reconciliation		
Net profit/ (loss) used for basic earnings	(6,967,115)	209,605
After tax effect of dilutive securities	-	-
Diluted earnings	(6,967,115)	209,605
	No.	No.
Weighted average number of ordinary share outstanding during the half-year used for calculation of basic earnings per share	321,227,669	283,722,304
Adjustments for calculation of diluted earnings per share:		
convertible notes	20,000,000	-
Employee Share Plan shares	-	2,137,581
Weighted average number of potential ordinary shares outstanding during the half-year used for calculation of diluted earnings per share	341,227,669	285,909,885

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 Dec as potential ordinary shares which may have a dilutive effect on the profit of the Group.

5. INVENTORIES

	6 Months	12 Months
	Ending	Ending
	31 Dec 2014	30 June 2014
	\$	\$
CURRENT		
Pearls – at fair value	683,436	1,067,815
Essential oil finished products – at cost	1,379,106	1,350,428
	2,062,542	2,418,243
Other – at cost		
Jewellery	3,048,750	2,935,950
Jewellery obsolescence provision	(823,434)	-
Pearl Meat	-	15,658
Mother of Pearl	-	332,693
Farm Consumables & Fuel	301,168	263,560
Cosmetics	99,814	147,910
	2,626,298	3,695,770
	4,688,840	6,114,013
NON CURRENT		
Nuclei – at cost	176,215	132,093
TOTAL INVENTORY	4,865,055	6,246,106

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

6. BIOLOGICAL ASSETS

	6 Months Ending 31 Dec 2014	12 Months Ending 30 June 2014
CURRENT		
Oysters – at fair value	3,525,994	8,414,231
Crops – at fair value	-	-
	3,525,994	8,414,231
NON CURRENT		
Oysters – at fair value	8,832,072	10,930,028
Crops – at fair value	1,387,832	1,081,384
	10,219,904	12,011,412
Total Biological Assets	13,745,897	20,425,643
	<u>No.</u>	<u>No.</u>
Quantity held within the Group operations:-		
Juvenile and mature oysters which are not seeded	1,846,598	2,060,121
Nucleated oysters	721,719	727,793
	2,568,317	2,787,914

During the six month ended 31 December 2014 no significant events occurred which impacted on oyster mortalities.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

7. PROPERTY, PLANT AND EQUIPMENT

	Non – Pearling Assets Plant & equipment	Leasehold improvements	Pearling Project Leasehold land & buildings	Plant & equipment, vessels, vehicles	Total
At 30 June 2014	\$	\$	\$	\$	\$
-at cost	2,262,932	1,037,198	1,135,047	4,261,299	8,696,476
-accumulated depreciation	(1,142,376)	(301,141)	(198,265)	(2,653,420)	(4,295,202)
	<u>1,120,556</u>	<u>736,057</u>	<u>936,782</u>	<u>1,607,879</u>	<u>4,401,274</u>
Half-year ended 31 December 2014					
Carrying amount at beginning of period	1,120,556	736,057	936,782	1,607,879	4,401,274
Additions	363,305	151,902	848,478	76,607	1,440,291
Disposals/ writedowns	-	-	-	-	-
Depreciation	(154,735)	(51,385)	(300,341)	(259,259)	(765,720)
Foreign exchange movement	(10,086)	41,445	102,112	191,137	324,608
	<u>1,319,039</u>	<u>878,019</u>	<u>1,587,031</u>	<u>1,616,364</u>	<u>5,400,453</u>
At 31 December 2014					
-at cost	2,567,949	1,320,526	1,821,368	4,844,467	10,554,310
-accumulated depreciation	(1,248,909)	(442,507)	(234,337)	(3,228,104)	(5,153,857)
	<u>1,319,040</u>	<u>878,019</u>	<u>1,587,031</u>	<u>1,616,363</u>	<u>5,400,453</u>

8. BORROWINGS

	31 Dec 2014	30 June 2014
	\$	\$
CURRENT		
Secured		
Bank loan	4,873,614	3,951,714
Other bank loan	90,321	2,800
Lease liabilities	28,148	61,651
Total secured current borrowings	<u>4,992,083</u>	<u>4,016,165</u>
Unsecured		
Other	85,441	4,108
Convertible notes	983,777	994,518
Total current borrowings	<u>6,061,301</u>	<u>5,014,791</u>
NON CURRENT		
Secured		
Other bank loan	121,394	89,665
Lease liabilities	41,112	50,503
Total secured non-current borrowings	<u>162,506</u>	<u>140,168</u>
Total non-current borrowings	<u>162,506</u>	<u>140,168</u>

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

9. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), and
- (c) 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 financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2014 on a recurring basis:

31 December 2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
Liabilities				
Derivative financial instruments	-	-	634,880	634,880
Forward foreign exchange contracts	-	106,039	-	106,039
Total Liabilities	-	106,039	634,880	740,919

30 June 2014	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
Liabilities				
Derivative financial instruments	-	-	825,985	825,985
Forward foreign exchange contracts	-	26,339	-	26,339
Total Liabilities	-	26,339	825,985	852,324

(b) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

During the period ended 30 June 2013 Convertible Notes for a total value of \$1,100,000. The Convertible Notes have a maturity date of 2 years after issue (therefore maturing between January and June 2015), attract an interest rate of 6% payable six monthly in arrears and are redeemable for ordinary shares in Atlas at any time during the 10 Business Days prior to the first anniversary of the Issue Date for the Convertible Notes; or the Maturity Date of the Convertibles Notes, or such other period as agreed in writing between the Company and the Noteholder. If the Noteholder exercises its conversion right, the Company must comply by redeeming all of the convertibles notes referred to in the Conversion Notice at their Face Value; and applying the Conversion Amount as subscription funds for the Conversion Shares which are to be issued to the Noteholder at a price per Conversion Share equal to the lower of: 5 cents or 90% of the 10 day volume weighted average. This conversion feature represents an embedded derivative that is required to be fair valued.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

9. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS CONT.

On 20 September 2014 \$100,000 in convertible notes were redeemed for shares in line with the terms of the convertible note agreement.

The current fair value is governed by the 5 cents conversion rather than the 90% of the 10 day volume weighted average, therefore the derivative has been valued using the Black-Scholes model. The inputs used in this model are as follows:

31 December 2014

Note	Issue Date	Expiry date	No. Of Options	Fair Value of Option	Exercise Price	Price of shares on valuation date	Expected Volatility annualised	Risk free interest rate	Dividend yield
A	15/01/2013	15/01/2015	10,000,000	\$0.033	\$0.050	\$0.082	60%	2.56%	-
C	01/03/2013	01/03/2015	7,000,000	\$0.030	\$0.050	\$0.082	60%	2.56%	-
D	30/05/2013	05/06/2015	3,000,000	\$0.032	\$0.050	\$0.082	60%	2.56%	-

All of the resulting fair value estimates are included in level 3.

(i) Transfers between levels 2 and 3 and changes in valuation techniques

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2014. There were also no changes made to any of the valuation techniques applied as of 30 June 2014.

(c) Fair values of other financial instruments

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. These had the following fair values as at 31 December 2014:

	Carrying amount	Fair value
Non-current borrowings		
Bank Loan	121,394	121,394
Convertible note	-	-
Lease liabilities	41,112	41,112
	<u>162,506</u>	<u>162,506</u>

Due to their short-term nature, the carrying amounts of the current receivables, current payables and current borrowings is assumed to approximate their fair value.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

10. SEGMENT INFORMATION

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

- (i) The segment information provided to the board of Directors for the reportable segments for the half-year ended 31 December 2014 is as follows:

31 Dec 2014	Wholesale Loose Pearl		Jewellery		Essential Oils	All other segments	Total
	Australia	Indonesia	Australia	Indonesia	Australia		
	\$	\$	\$	\$	\$	\$	\$
Total segment revenue	4,081,879	5,370,304	366,963	345,337	799,619	-	10,964,102
Inter-segment revenue	-	(5,157,615)	-	-	-	-	(5,157,615)
Revenue from external customers	4,081,879	212,689	366,963	345,337	799,619	-	5,806,487
Normalised EBITDA	(1,683,430)	1,041,301	(331,406)	(616,962)	49,985	-	(1,540,510)
Adjusted net operating profit/(loss) before income tax	(2,042,082)	1,025,479	(357,836)	(639,728)	43,905	-	(1,970,261)

31 Dec 2013	Wholesale Loose Pearl		Jewellery		Essential Oils	All other segments	Total
	Australia	Indonesia	Australia	Indonesia	Australia		
	\$	\$	\$	\$	\$	\$	\$
Total segment revenue	6,539,426	2,285,604	403,829	531,886	1,086,359	-	10,847,104
Inter-segment revenue	-	(2,129,901)	-	-	-	-	(2,129,901)
Revenue from external customers	6,539,426	155,703	403,829	531,886	1,086,359	-	8,717,203
Normalised EBITDA	1,601,591	55,170	(25,981)	21,056	313,969	-	1,965,806
Adjusted net operating profit/(loss) before income tax	1,105,716	46,384	(50,573)	(7,875)	310,154	-	1,403,806

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

10. SEGMENT INFORMATION CONT.

Totals segment assets

31 December

2014	12,791,368	18,834,257	1,064,613	676,284	4,063,345	-	37,429,867
30 June 2014	13,181,788	17,966,654	1,192,564	956,946	4,084,381	-	37,382,333

Total segment liabilities

31 December

2014	(1,487,716)	(831,227)	(75,439)	(166,877)	(647,552)	-	(3,208,811)
30 June 2014	(2,030,664)	(784,221)	(23,001)	(181,392)	(1,027,094)	-	(4,046,371)

(b) Other segment information

(i) Adjusted net operating profit

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

The board of Directors and management team assesses the performance of the operating segments based on a measure of net operating profit. This measurement basis excludes the effects of foreign exchange losses and gains, both realised and unrealised, impairment expenses on financial assets and the effects of fair value adjustments on biological and agricultural assets.

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

	Consolidated	
	31 Dec 2014	31 Dec 2013
	\$	\$
Net operating profit / (loss) before tax	(1,970,261)	1,403,806
Intersegment eliminations	-	-
Change in fair value of biological assets	(5,770,884)	(181,097)
JV profit / (loss)	(130,530)	-
Impairment expense	(341)	-
Foreign exchange losses	197,465	-
Foreign exchange gains	232,683	177,329
Gains/(loss) on derivative financial instruments	69,760	(122,452)
Other revenue/(expenses)	-	(24,355)
Change in fair value of pearls	(2,548,307)	(1,367,613)
(Loss) before income tax from continuing operations	(9,920,415)	(114,382)

The amounts provided to the board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements except for excluding fair value adjustments in relation to biological and agricultural assets. These assets are allocated based on the operations of the segment and the physical location of the asset.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

10. SEGMENT INFORMATION CONT.

(ii) Segment assets

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

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

	31 Dec 2014	30 June 2014
	\$	\$
Segment assets	37,429,867	37,382,333
Intersegment eliminations	(1,255,873)	533,159
Unallocated:		
Other	-	534
Investments	75,958	3,025
Joint Venture Loans	51,329	67,896
Deferred tax assets	5,386,558	4,599,784
Fair value adjustments on biological and agricultural assets	(8,737,656)	(1,763,936)
Total assets as per the statement of financial position	32,950,183	40,822,795

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$3,164,817 (June 2014: \$2,674,188). The total located in Indonesia is \$12,631,755 (June 2014: \$14,134,400).

(iii) Segment Liabilities

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

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

	31 Dec 2014	30 June 2014
	\$	\$
Segment liabilities	3,208,811	4,046,371
Intersegment eliminations		
Unallocated:		
Other	5,143	4,800
Current tax liabilities	(544,859)	(94,060)
Borrowings	6,223,807	5,154,959
Deferred tax liabilities	1,826,401	2,901,397
Total liabilities as per the statement of financial position	10,719,303	12,013,467

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2014	30 June 2014
	\$	\$
Derivative financial assets		
Forward foreign exchange contracts	-	-
Derivative financial liabilities - current		
Forward foreign exchange contracts	106,039	26,443
Convertible notes	634,880	825,880
	740,919	852,323

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

11. DERIVATIVE FINANCIAL INSTRUMENTS CONT.

The Group's operating expenses mainly consist of materials and services purchased in Indonesian Rupiah. During the period ended 31 December 2014 and 30 June 2014 the Group did not enter into any forward exchange contracts to purchase Indonesian Rupiah. 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.

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge a proportion of the exposure to fluctuations in foreign exchange rates in accordance with the Groups financial risk policies.

Derivative financial assets and liabilities comprise forward exchange contracts and an embedded derivative in the convertible note agreements. Gains and losses arising from changes in fair value of foreign exchange hedging contracts and convertible notes are recognised in the statement of profit or loss and other comprehensive income in the period in which they arise.

12. CONTINGENT LIABILITIES

The 2008 tax audit for PT Cendana Indopearls was completed during the prior year reporting period 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 have appealed the balance of AUD \$300,000 via the appeal process. A trial date of 26 February 2015 has now been set in tax court in Surabaya, Indonesia, to review the 2008 case.

13. CONTRIBUTED EQUITY

	31 Dec 2014	30 June 2014	31 Dec 2014	30 June 2014
	No. of shares	No. of shares	\$	\$
Issued and fully paid-up capital	323,164,387	319,485,425	32,468,512	32,315,473
Ordinary Shares				
Balance at beginning of period	319,485,425	281,737,162	32,153,001	30,203,033
Shares issued	3,678,962	37,748,263	315,511	1,949,968
Balance at end of period	323,164,387	319,485,425	32,468,512	32,153,001
Treasury Shares				
Balance at beginning of period	7,131,027	5,301,616		
Acquisition of shares by Trust under Plan	-	6,291,051		
Shares released	(1,678,962)	(4,461,640)		
Balance at end of period	5,452,065	7,131,027		

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

13. CONTRIBUTED EQUITY CONT.

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

14. POST REPORTING DATE EVENTS

On the 11th February 2015, the number of Directors on the Board reduced from 5 members to 3. Mr Steven Birkbeck resigned as Executive Chairman and Dr Joseph Taylor resigned as a Non-Executive Director. Nelson Rocher, Mr Birkbeck's Alternate Director, has also resigned but remains involved in Atlas' daily operations. Current Non-executive Director Mr Geoff Newman will assume the role of Chairman.

Also on 11th February 2015, Joint Company Secretary, Mr Stephen Gleeson, resigned from his position as Joint Company Secretary. He will retain his role as Managing Director Essential Oil of Tasmania. Chief Financial Officer Ms Danielle Brandenburg has been appointed Joint Company Secretary.

On the 12th February 2015, a \$500,000 bridging loan was secured from Jingie Investments Pty Ltd. The loan is unsecured and attracts an interest rate of 7%. The loan is repayable 6 months after the date of drawdown (or as otherwise agreed between the parties). Jingie Investments is a related party of Atlas Pearls and Perfumes Ltd director Tim Martin.

On the 17th February 2015, a 45 day short term loan to the value of \$550,000 was obtained from Westwood Properties Pty Ltd. The loan represents a partial advance on Westwood Properties Pty Ltd's investment into Essential Oils of Tasmania Pty Ltd, a subsidiary of Atlas Pearls and Perfumes Limited. The 45-day timeframe is intended to provide the Group with sufficient time to finalise a Share Holder Agreement.

On the 16th January 2015, a \$300,000 5 year term loan was received by Essential Oils of Tasmania Pty Ltd. Security is charged over specific plant and equipment owned by Essential Oils of Tasmania Pty Ltd to the value of the loan. Interest of 3.6% per annum is payable.

15. SUBSIDIARIES

There have been no changes to subsidiaries during the reporting period.

16. RELATED PARTY TRANSACTIONS

Since the previous financial year end, no Director of the Company has received or has become entitled to receive a benefit (other than the emoluments disclosed in the annual financial statements or the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or a related company with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

17. GOING CONCERN

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of the business.

The net loss after tax for the Group for the half-year ended 31 December 2014 amounted to \$6,967,115 (half-year ended 31 December 2013 \$209,605 profit).

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

17. GOING CONCERN CONT.

At 31 December 2014 the Group had a working capital balance of \$2.6m; \$3.5m of this balance comprised of unharvested oysters due for harvest during the next 12 months. As at the 31 December 2014 the Group had a net asset position of \$22.2m; \$12.35m of this balance comprised of unharvested oysters. It is anticipated that for the 12 months ended 30 June 2015, the average size of loose pearls will be approximately 15% smaller than the average size of loose pearls for the 12 months ended 30 June 2014. This reduction in size is anticipated to result in a reduction in the annual Group revenue for the 12 months ended 30 June 2015 of approximately 15%. It is anticipated that the harvest of smaller pearls will be completed by the 30 June 2015 and that the average size will return to historical average sizes during the 12 months ended 30 June 2016. This reduction in revenue from pearling operations will impact the Group's liquidity in the second half of the financial year ended 30 June 2015. Although the Company has not yet breached lending covenants, it is unlikely to be compliant with its Normalised EBITDA covenant at the 30 June 2015 year-end.

In response to this matter all operations and overheads have been reviewed to identify cost savings aligned with a refocus on the core pearling business whilst preserving the most prospective of the value-adding projects.

Subsequent to year end the Group has:

- Agreed with its lender the continuation of its existing debt facilities up until the 30th of June 2015 on the basis that regular auction updates are provided to the lender and that the Group's actual performance meets the forecasts provided to the lender for the remainder of the financial year ended 30 June 2015;
- Agreed with its lender to re-negotiate the minimum EBITDA covenant for the financial year ended 30 June 2016 to a level of earnings sufficient for debt servicing following finalisation of 30 June 2016 budgets. In the event that the Company cannot reach agreement with its lender as to new suitable terms, it will need to seek to refinance those arrangements;
- Obtained a \$500,000 short term loan from Jingie Investments Pty Ltd on the 12th of February 2015;
- Obtained a \$550,000 45 day short-term loan from Westwood Properties Pty Ltd on the 17th of February 2015; and
- Agreed to raise capital through the issue of shares to the value of \$2.5m.

However, without:

- the successful fund raising of capital through an issue of shares;
- the execution of a Share Holder Agreement for a long term investment into Essential Oils of Tasmania Pty Ltd by Westwood Properties Pty Ltd;
- the renegotiation of existing credit and debt facilities of the Group;
- the international market for wholesale loose white south sea pearls maintaining existing demand levels and pricing;
- the Group meeting its auction forecasts;
- the Group generating profitable operations with positive cash flows; and/or
- the realisation of assets at amounts greater than their carrying values,

the Group may not be able to continue as a going concern and therefore it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that different from those in the financial statements.

On this basis and considering the options available to the Group, the directors declared on page 31 that there are reasonable grounds to believe that the Group can pay its debts, as and when they fall due.

These financial statements do not include any adjustments relating to the recovery and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosure that may be necessary should the Group be unable to continue as a going concern.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 12 to 30:

- (a) comply with Accounting Standard AASB134 "Interim Financial Reporting" and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date;

In the Directors opinion there are reasonable grounds to believe that Atlas Pearls and Perfumes Ltd will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



G Newman
Chairman

Perth, Western Australia
25 February 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Atlas Pearls and Perfumes Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Atlas Pearls and Perfumes Ltd, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Atlas Pearls and Perfumes Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Atlas Pearls and Perfumes Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 17 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary funding through equity, the renegotiation of existing credit and debt facilities and/or sale of non-core assets. These conditions, along with other matters as set out in Note 17, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', is written over the BDO logo.

Glyn O'Brien

Partner

Perth, 25 February 2015