

ATLAS

SOUTH SEA PEARL

For personal use only

ANNUAL REPORT
2010

Corporate Directory

Directors

Stephen Paul BIRKBECK

Joseph James Uel TAYLOR
B.Sc. (Biology), Ph.D.

Simon Charles Bunbury ADAMS
B.Bus, M.Acc, A.C.I.S., A.I.C.D.

Geoff NEWMAN
B.Ec (Hons), MBA, F.C.P.A, F.A.I.C.D

Company Secretary

Cecilia Anna TYNDALL
B. Bus, C.A., A.C.I.S.

Registered Office

43 York Street
Subiaco
Western Australia 6008

P.O. Box 8015
Subiaco East
Western Australia 6008

T +61 (0) 8 9380 9444
F +61 (0) 8 9380 9970

W www.atlassouthseapearl.com.au
E atlas@atlassouthseapearl.com.au

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

CONTENTS

Chairman's Report	2
Directors' Report	4
Auditor's Independence Declaration	32
Consolidated Statement of Comprehensive Income	35
Consolidated Statement of Financial Position	36
Consolidated Statement of Changes in Equity	37
Consolidated Statement of Cash Flows	38
Notes to and Forming Part of the Consolidated Financial Statements	39
Declaration by Directors'	90
Independent Auditor's Report	91
Shareholder Information	94

Chairman's Report

Dear Shareholder,

The world economic crisis of 2009 changed the commercial environment significantly and the impact of a global downturn in the luxury sector is still affecting the pearling industry. In 2009 the price that South Sea pearl farmers received for their product halved. In 2010-11 the price has recovered slightly but for many producers the sale price is less than the cost of production, causing the wide spread closure or restructure of farms in Australia, Indonesia and the Philippines.

Atlas has made organisational changes in 2010, at the time of these low price points. We maintained a profitable margin on production, and we used our liquidity in an aggressive acquisition program. In 2010 we acquired a major pearling operation with leases spread over the islands of Flores and Alor. Combined with the existing pearl farms, this provides a base to double our pearl production with a good geographical spread for risk mitigation.

2010 saw the highest quantity of oyster seeded in the company's history with 465,000 seeded and the instigation of operational and infrastructure changes to enable further significant expansion over 2011-2013 in order to reach the stated growth objectives. Our two hatcheries have achieved the production targets that will be the foundation of this ambitious expansion program.

Atlas continues to maintain high standards within its operations and management which, combined with its economies of scale in production, underwrites business profitability into the future. An ongoing focus on key performance measures and a review of strategic goals has maintained the focus of the management team over the last twelve months.

Central to the economic prosperity of Atlas is product quality and innovation, and a unique and compelling market proposition that is being reflected through strategic branding. In 2010, Atlas launched its new corporate brand and restructured its sales and marketing divisions. The group has established a strong loose pearl customer base and now has a profitable retail business with 5 outlets and two more being opened in 2011.

In the second half of 2011, a new state of the art corporate headquarters will open that will highlight the company's products, vision and values to its key stakeholders. Atlas has reduced its gearing, increased its profitability, improved its liquidity whilst growing net assets to over \$0.14 cents per share. A substantial increase in the asset base will be sustained over the next three years.

The company elected in 2010 to use its positive liquidity to reduce its bank debt and invest in the scale up of business capacity rather than pay dividends. I would ask for the Shareholders continued support for the prudent re-establishment of a dividend stream in 2011-2012 that ensures the company has the right balance between dispersion of its profits to Shareholders and re-investing in the expansion of the group's activities.

As increasing volumes of pearl inventory (that take two years to harvest from seeding) work their way through the balance sheet, higher revenues which will result in improved profitability, will be utilised to grow a diverse and profitable company.

Leveraging off the luxury supply chain with these new concepts and products has already started through the groups extensive contacts in the twin engine rooms of the luxury sector, New York and Paris. As a founder of various ethical and environmental initiatives in the luxury perfume sector over the last 20 years, I believe Atlas provides a window into the consumer trends of the 21st century.

Chairman's Report

GLOBAL LEADER IN ECO PEARLING

I am proud that our management team demand the Board and Shareholders' support for a sustainable approach to the regional environments and cultures with-in which we operate. We take the Environmental Custodianship of our Oceans (ECO) seriously and view this as not only a social responsibility but as a good long term commercial strategy.

By adopting this approach, we create a win-win situation for the regional communities where we operate, for our environment and for Shareholders. Ethical business is not a social tax, it can be a prudent commercial investment.

UNLOCK THE TREASURES OF THE SOUTH SEAS

Innovation and research are central to the group's core objectives. As well as the long term production research undertaken in relation to oyster genetics (James Cook University, Queensland) and farming methodologies, Atlas has started to do extensive product development research relating to by-product value adding. These investments are starting to produce tangible results.

CONCLUSION

I take this opportunity to encourage the ongoing support of Shareholders who have remained loyal to the company. The pearling business has a long product cycle that demands patience and the rewards for this are now being seen. It is my objective to ensure that we share the improved fortunes of our group with our Shareholders in a tangible financial way in the short to medium term as profitability grows. Results of the record 2010 seeding programme will come to fruition in 2012/13 with an increased pearl harvest.



Stephen Birkbeck

CHAIRMAN

31 March 2011

Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the Company) consisting of Atlas South Sea Pearl Limited and the entities it controlled at the end of, or during, the year ended 31 December 2010.

1. DIRECTORS

The following persons were directors of Atlas South Sea Pearl Limited during all or part of the financial year and up to the date of this report except where stated:

STEPHEN PAUL BIRKBECK (Age – 50)

CHAIRMAN OF THE BOARD (Audit Committee, 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 Director on 15 April 2005

Appointed Chairman of the board on 21 December 2009

(Last re-elected as a director – 18 May 2009)

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

- Nil

JOSEPH JAMES UEL TAYLOR, B.Sc. (Biology), Ph.D. (Age – 44)

NON EXECUTIVE DIRECTOR, (Audit 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

SIMON CHARLES BUNBURY ADAMS B.Bus, M.Acc, A.C.I.S (Age – 45)

MANAGING DIRECTOR

Mr Adams has been with Atlas South Sea Pearl Ltd since 2000 in the role of Company Secretary and CFO. He has a good working knowledge of the pearling operations in Indonesia and of the pearling industry. Mr Adams has worked in numerous Australian listed companies over the last 16 years in a range of industries including the resource, property, engineering and real estate finance sectors. He has experience in the areas of finance, corporate, compliance and planning.

Appointed Managing Director on 1 September 2010

(The constitution does not require the Managing Director to retire by rotation)

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

- Nil

Directors' Report

GEOFF NEWMAN, B.Ec (Hons), M.B.A, F.C.P.A ,F.A.I.C.D. (Age – 59)

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 Limited before he retired from the Coogee group of companies at the end of June 2006.

Director since 15 October 2010

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 Limited – appointed 16 October 2008

Retired Directors -

IAN McKENZIE MURCHISON B.Comm, F.C.A., Dip. Naut. Sc. (Age – 59)

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

Mr Murchison has had over 28 years experience in finance and investment, and has been a Director of both listed and unlisted companies in Australia and overseas. Mr Murchison was an investment director and founding partner of the West Australian based private equity investment fund, Foundation Capital. Mr Murchison was a founding partner of the national chartered accounting firm of Sothertons.

Appointed Director on 28 July 2004

Resigned on 15 October 2010

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

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

- TFS Corporation Ltd – appointed 27 February 2006

RICHARD ALLEN WRIGHT, B.Sc. (Chemical Engineering), M Marine Affairs. (Age - 58)

MANAGING DIRECTOR

Mr Wright is a former US Navy Submarine Commander and has worked in the US Embassy (Jakarta) as Naval Attaché. He has filled numerous senior management roles in commerce and in the not-for-profit sector. Mr Wright lives in Indonesia and has a good understanding of the language and culture in Indonesia and other parts of South East Asia. He joined the Company in March 2008 as General Manager – Operations.

Appointed Director on 10 March 2009

Resigned 1 September 2010

Appointed Managing Director on 1 June 2009

(The constitution does not require the Managing Director to retire by rotation)

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

- Nil

Directors' Report

2. COMPANY SECRETARY

The Company Secretary at the end of the financial year was Mrs Cecilia Tyndall. Mrs Tyndall has over 15 years experience working as an accounting and finance professional in public practice, publicly listed companies and other private organisations. Roles include responsibilities as a company secretary, financial controller and advisor to the Board and senior management. She is a member of Chartered Accountants Australia and Chartered Secretaries Australia.

Company Secretary since 15 November 2010.

The Company Secretary during the financial year until 15 November 2010 was Mr Simon C B Adams.

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	
		Held	Attended	Held	Attended
S.P. Birkbeck	01/01/10 - 31/12/10	8	8	2	2
G. Newman	15/10/10 - 31/12/10	2	2	-	-
J.J.U. Taylor	01/01/10 - 31/12/10	8	8	2	1
S.C.B. Adams	01/09/10 - 31/12/10	4	4	-	-
R.A. Wright	01/01/10 - 01/09/10	4	4	2	1
I.M. Murchison	01/01/10 - 15/10/10	6	5	2	2

4. CORPORATE GOVERNANCE STATEMENT

Atlas South Sea Pearl Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance. The board continues to review the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the Group in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the ASX Corporate Governance Principles and Recommendations (including 2010 amendments) where possible, given the size and resources of the Group. Where there is variation from these principles, an explanation is provided in this report.

4.1 Principle 1: Lay solid foundations for management and oversight

The relationship between the board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Roles and responsibilities of the Board

The Board of Directors is responsible for the following:

- Providing strategic guidance to the Group including approving the corporate strategy
- Reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure
- Overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - progress of major capital expenditures and other significant corporate projects
 - monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors
 - ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the Managing Director, COO, CFO and Company Secretary
 - overseeing the operation of the Group's system for compliance and risk management reporting to shareholders
 - ensuring appropriate resources are available to senior management

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Managing Director and senior executives.

A performance assessment for senior executives takes place annually.

4.2 Principle 2: Structure of the board to add value

Composition of the Board and Directors independence

The names of the directors of the Company in office at the date of this report are set out on page 4 & 5 of this report.

Directors' Report

In accordance with the definitions of an independent director as set out in the ASX Corporate Governance Principles and Recommendations, Mr Newman is the only independent director. The Board is therefore not made up of a majority of directors who are independent. However, the directors believe that they can, and do, act independently making judgements that are in the best interest of the Company on all relevant issues.

Mr Birkbeck is a substantial shareholder owning 12.58% of the issued shares of the Company and therefore is not considered to meet the definition of an independent director. Mr Birkbeck and his fellow directors believe that he does act independently and in the best interests of the Company and all of its shareholders when dealing with issues that fall within the scope of the role of the Chairman.

Dr Taylor ceased employment with the Company in June 2009. As he has held an executive position with the Company within the last two years, he is not considered to meet the definition of an independent director. Dr Taylor's knowledge and experience in the pearling industry and working in Indonesia provides strength to the functions of the Board of Directors.

The Board believes that its members represent a good balance of skills, knowledge and experience that are necessary to understand and manage the challenges faced in the pearling industry. It also believes that the size of the Board reflects the appropriate allocation of the Company's resources and allows for effective decision making by its members.

Term of office

Non executive directors are appointed for a fixed term with their positions made vacant in accordance with the Company's constitution. Reappointment of a Director at the time of their retirement is not automatic but they may renominate for their positions on the Board subject to the constitution and they are re-elected by the members at the Company's annual general meeting.

Chairman of the board

The chair is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The Managing Director is responsible for implementing group strategies and policies.

Induction

The induction provided to new directors and senior managers enables them to actively participate in board decision-making as soon as possible. It ensures they have full understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the board and senior executives and the Company's meeting arrangements.

Commitment

The board held eight board meetings during the year. The number of meetings of the company's board of directors and of each board committee held during the year ended 31 December 2010, and the numbers of meetings attended by each director is disclosed on page 6.

The commitments of non-executive directors are considered by the board prior to the directors' appointment to the board of the company and are reviewed each year as part of the annual performance assessment.

Prior to the appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

Independent professional advice and access to company information

Each director has the right to access all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent advice at the entity's expense.

Board committees

The board has established committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees include audit and remuneration committees as detailed below.

Minutes of committee meetings are tabled at the subsequent board meeting.

Nomination Committee

The Board has not established a nomination committee as there are insufficient directors on the Board for the functions of such a committee to operate effectively as a sub-committee. A formal performance review of the board and its members has not been undertaken in the last financial year. Careful consideration is given to the appointment of the Company's new directors to ensure that the Board is well served by their experience and skills. The Board remains open to appointing additional directors who may add value to the skill and knowledge base of the Board.

4.3 Principle 3: Promote ethical and responsible decision making

Code of conduct

There is no formal code of conduct in place for directors and senior executive officers. However, the Board and management do adhere to best practice principals which include the following:

- (i) conflict of interest – managing situations where the interest of a private individual interferes or appears to interfere with the interests of the Company;
- (ii) corporate opportunity – preventing directors and key executives from taking advantage of property, information or position, or opportunities arising from these, for personal gain;
- (iii) confidentiality – restricting the use of non-public information except where disclosure is authorised or legally mandated;
- (iv) fair dealing – by all employees with customers, suppliers, competitors and employees of the Company;
- (v) protection and proper use of assets of the Company – ensuring the protection of and efficient use of assets for legitimate business purposes;
- (vi) compliance with laws and regulations – active promotion of compliance.

Trading in Company securities

The Company has a share trading policy. "Restricted Persons" including Directors and employees (and their associates) are permitted to own shares in the Company but they are prohibited from dealing in the Company's securities during a closed and prohibited period, if the dealing constitutes short term or speculative trading, if neither of the above two prohibitions apply, without having first obtained the prior written consent of the Chairman. A prohibited period is set out in the Company's share trading policy on its website and through its ASX announcements. Restricted persons must advise the Company of any trading of its securities within five (5) days of any such transaction.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. The Corporate Governance Principles and Recommendations (including 2010 Amendments) is mandatory for financial years commencing on or after 1 January 2011. Therefore the Company has not yet developed a diversity policy to outline its objectives in relation to gender, age, cultural background and ethnicity. The requirement for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the Company's progress in achieving them will be addressed this financial year.

4.4 Principle 4: Safeguard integrity in financial reporting

Audit Committee

The audit committee is made up of three (3) non-executive directors. The chair of the audit committee is Mr Newman, an independent director who is not the Chairman of the Board. Mr Newman has extensive financial and economics experience. The other members of the audit committee have a good understanding of business and are financially literate. The size and makeup of the current Board does not allow for there to be a majority of independent members on the audit committee.

Details of these directors attendance at audit committee meetings are set out in the directors report on page 6.

The Chief Executive Officer and the Chief Financial Officer declare in writing to the Board that the financial records of the company have been properly maintained, comply with accounting standards and present a true and fair view of the company's financial position prior to the signing of the accounts.

The main responsibilities of the committee are to:

- (i) Review, assess and approve the annual report, the half-year financial report and all other financial information published by the Company or released to the market
- (ii) Assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with applicable laws and regulations
- (iii) Oversee the effective operation of the risk management framework
- (iv) Recommend to the board the appointment, removal and remuneration of the external auditors and review the terms of engagement, the scope and quality of the audit and assess performance
- (v) Consider the independence of the external auditor on an ongoing basis and review and approve the level of non-audit services provided by the external auditors
- (vi) Review and monitor related party transactions

In fulfilling its responsibilities, the audit committee:

- (i) Receives regular reports from management and the external auditors
- (ii) Meets with the external auditors at least twice a year, or more frequently if necessary
- (iii) Provides the external auditors with a clear line of direct communication

External auditors

The company and audit committee policy is to appoint auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. BDO Audit (WA) Pty Ltd ("BDO") is appointed as the current auditor of the Company. It is BDO's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a breakdown of fees for non audit services, is provided in the directors' report and as a note to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

4.5 Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Company does not have a written policy on disclosure requirements but it is compliant with the continuous disclosure rules of the Australian Securities Exchange which ensures that:

- (i) all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- (ii) Company announcements are factual and presented in a clear and balanced way.

The Board aims to ensure that all shareholders are kept informed of the Company's performance. Information is regularly communicated to shareholders through:

- (i) Distribution of the annual report to all shareholders (other than those who do not elect to receive it) which is available online through the Company's website;
- (ii) Distribution of shareholder updates which provide additional operational, corporate and financial information relevant for that period;
- (iii) The annual general meeting and other meetings where shareholders have the opportunity to approve various Board actions;
- (iv) Company announcements, shareholder or stock broker briefings and press releases which are posted to the Company's web site; and
- (v) Direct shareholder liaison by authorised executives.

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Stakeholders' interests

The Company does not have a code of conduct to deal with the legal and other obligations to stakeholders.

Senior executives are required to identify strategic stakeholders and maintain close contact with these parties at all times. Such stakeholders include employees, local communities within which the pearl farming activities are operated, critical equipment and service suppliers, product distributors and local and regional government authorities.

Employees have the right, and are encouraged to alert management and the board in good faith to potential misconduct without fear of retribution. Where necessary, such reports must be recorded and investigated in full.

4.6 Principle 7: Recognise and manage risk

Risk Management

The Company addresses risk management through its ongoing review and prioritisation of operation activities and corporate compliance. The Board is made aware of issues that, in the opinion of management, require resources or actions to deal with the matter. This includes all aspects of the business including the financial, operational and compliance risks, both financial and non-financial.

Corporate reporting

The Managing Director and the Chief Financial Officer have made the following certifications to the board:

- That the company's financial reports are complete and present a true and fair view, in all material aspects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards
- That 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 that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

4.7 Principle 8: Remunerate fairly and responsibly

Remuneration Committee

The remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to senior executives and directors of the Company and its subsidiaries. This includes the setting of incentive performance packages and share allocations under the Employee Share Plan.

The members of the remuneration committee during the year were Mr Birkbeck, Mr Newman and Mr Murchison. The managing director is invited to the remuneration committee meetings as required but does not attend the meetings that involve matters that pertain to him. The committee has met on an ad hoc basis when required during the year.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an ad hoc basis, and revised where necessary.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the directors report under the heading 'Remuneration Report'.

The committee also assumes responsibility for overseeing management succession planning, including ensuring adequate arrangements are in place for appropriate candidates to be later promoted to senior positions.

5. REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- 5.1 Principles used to determine the nature and amount of remuneration
- 5.2 Details of remuneration
- 5.3 Share based compensation
- 5.4 Service agreements
- 5.5 Additional information

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

5.1 Principles used to determine the nature and amount of remuneration

The objectives of the Company's remuneration framework is to ensure that reward for performance is competitive and appropriate for the results delivered and recognises the environment within which its executives operate. Remuneration of senior executives is set with the objectives of:

- (i) retaining and motivating key staff;
- (ii) attracting quality management skills to the organisation; and
- (iii) alignment of executive reward with the achievement of strategic objectives and the creation of value for shareholders.

The Board has established a remuneration committee which provides advice on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

5.1.1 Remuneration structure of Non-Executive Directors

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 30th May 2007. In the year ending 2010, the total non-executive directors' fees including retirement benefit contributions were \$161,088.

The following fees have applied:

Base Fees for Non Executive Directors - \$40,000 per annum plus superannuation
Additional fees of \$5,000 per annum plus superannuation for the Chairman of the Audit Committee
Chairman's fee is \$80,000 per annum plus superannuation

In addition the Chairman receives \$36,000 per annum for providing marketing advice to the Company. Other Non Executive Directors receive \$20,000 per annum as technical director and \$25,000 per annum for business development advice.

5.1.2 Remuneration Structure of Executives

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.

Employee 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.

Directors' Report

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 5.4 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 5.3 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.

5.2 Details of Remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and the highest paid executives of Atlas South Sea Pearl Limited and the Atlas South Sea Pearl Limited Group are set out in the following tables.

The key management personnel of the Group are the directors of Atlas South Sea Pearl Limited (see pages 4 and 5) and those executives that report directly to the Managing Director being:

- | | | |
|-------------|---|---|
| J Jorgensen | - | Pearl Production Manager (from 1 March 2010) (Appointed Chief Operating Officer 1 September 2010) |
| T Jones | - | Pearl Marketing and Distribution Manager (from 15 March 2010) |

In addition, the following persons must be disclosed under the Corporations Act 2001 as they are among the 5 highest remunerated Group and / or Company executives:

- | | | |
|-----------|---|--|
| M Mau | - | Group Financial Controller |
| C Triefus | - | Retail Production Manager |
| C Tyndell | - | Company Secretary (appointed 15 November 2010) |

5.2 Details of Remuneration (Cont.)

Details of the nature and amount of each element of the remuneration of each key management personnel of the Group and other executives of the Company and the Group.

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					
		\$	\$	\$	\$	\$	\$	\$	\$
Directors (Non-Executive)									
S.P. Birkbeck ¹⁰	2010	98,000	-	-	98,000	7,200	-	-	105,200
	2009	41,269	-	-	41,269	3,714	-	-	44,983
I.M. Murchison ¹²	2010	42,500	-	-	42,500	3,263	-	-	45,763
	2009	45,000	-	-	45,000	4,050	-	-	49,050
G. Newman ¹¹	2010	9,375	-	-	9,375	750	-	-	10,125
	2009	-	-	-	-	-	-	-	-
G.R.W. Snow ¹⁰	2010	-	-	-	-	-	-	-	-
	2009	77,936	-	-	77,936	7,014	-	-	84,950
(Executive)									
J.J.U. Taylor ^{1,2,8}	2010	149,653	-	-	149,653	15,600	-	884	166,137
	2009	235,816	-	13,183	248,999	14,100	2,415	5,195	270,709
S.C.B. Adams ^{1,2,4,5,8}	2010	169,000	10,000	-	179,000	15,210	3,072	48	197,330
	2009	159,500	-	-	159,500	14,355	4,625	787	179,267
R.A. Wright ^{2,5,6}	2010	133,624	-	12,017	145,641	-	-	-	145,641
	2009	168,750	-	4,072	172,822	-	-	50,000	222,822

Directors' Report

5.2 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 Payments	Total
			Short term incentive cash bonus	Non-cash monetary benefit		Super-annuation benefit	Long service leave			
		\$	\$	\$	\$	\$	\$	\$	\$	\$
Key Management Personnel										
J.S. Jorgensen ^{2,3,5,7,13}	2010	180,130	-	22,404	202,534	16,211	-	-	-	218,745
	2009	-	-	-	-	-	-	-	-	-
T Jones ^{5,7,8,14,17}	2010	91,606	11,089	-	102,695	8,245	-	-	-	110,940
	2009	-	-	-	-	-	-	-	-	-
Other Company and Group Executives										
M Mau ^{7,8,9}	2010	126,000	-	24,703	150,703	-	-	-	-	150,703
	2009	63,539	-	8,001	71,540	-	-	-	-	71,540
C Triefus ^{7,15}	2010	94,167	-	18,254	112,421	-	-	-	-	112,421
	2009	-	-	-	-	-	-	-	-	-
C Tyndall ^{7,8,16}	2010	2,243	-	-	2,243	-	-	-	-	2,243
	2009	-	-	-	-	-	-	-	-	-
S Cavanagh ^{7,8,9}	2010	-	-	-	-	-	-	-	-	-
	2009	102,934	-	-	102,934	10,912	-	18,308	575	132,729

Notes:

- Dr J Taylor and Mr S Adams are Directors of the Company's Malaysian subsidiary Aspirasi Satria Sdn Bhd.
- Mr S Adams and Mr R Wright are key management personnel of the Group with the title of Managing Director.. Dr J Taylor resigned as Managing Director on 1 June 2009. Mr R Wright resigned as Managing Director as at 1 September 2010. Mr S Adams was appointed Managing Director as at 1 September 2010.
- 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.
- Mr S Adams was the Company Secretary and General Manager (Corporate & Finance) of the Group and appointed Managing Director of the Group on 1 September 2010. He was Company Secretary until 15 November 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 Pearl Production Manager and the Pearl Marketing and Distribution Manager, and in 2009 General Manager- Operations and General Manager -Corporate and Finance.
- Mr Wright was General Manager –Operations and commenced employment on 24 March 2008. Mr R Wright was appointed Director on 10 March 2009 and Managing Director on 1 June 2009.
- Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001
- Denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the Corporations Act 2001.
- S Cavanagh was the Group Financial Controller. S Cavanagh resigned on 11 September 2009. M Mau was appointed Group Financial Controller and commenced on 15 June 2009.
- G Snow resigned as Chairman on 21 December 2009 and S Birkbeck appointed Chairman.
- G Newman appointed 15 October 2010.
- I Murchison resigned 15 October 2010.
- Mr J Jorgensen is the Managing Director of the Company's Indonesian subsidiary, P.T. Cendana Indoparls.
- Mr T Jones was appointed Pearl Marketing and Distribution Manager 15 March 2010.
- Mr C Triefus is the Retail production Manager, in 2009 he was not one of the Groups highest paid executives.
- Mrs C Tyndall was appointed Company Secretary on 15 November 2010.
- Mr T Jones was the only executive to receive a portion of his remuneration linked to performance – 90% of his remuneration was fixed and 10% at risk as an incentive payment.

5.3 Share based payments compensation

In 2006 and 2007 ordinary shares were issued to key management personnel of Atlas South Sea Pearl 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:

- 5.3.1** 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 2006 when the market price was 31 cents per share. The fair value of the shares is considered to be the difference between the market price on the date of issue and the employees purchase price of the shares.
- 5.3.2** 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;
- 5.3.3** 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;
- 5.3.4** 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	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 ⁽¹⁾	Maximum value of grant yet to be vested ⁽²⁾
Joseph Taylor	10/5/07	200,000	100%	0%	2009 – 50% 2010 – 50%	Ordinary Shares	\$-	\$-
	30/5/06	1,000,000	100%	0%	2008 – 50% 2009 – 50%	Ordinary Shares	\$-	\$-
Simon Adams	17/4/07	100,000	100%	0%	2009 – 50% 2010 – 50%	Ordinary Shares	\$-	\$-
	30/5/06	400,000	100%	0%	2008 – 50% 2009 – 50%	Ordinary Shares	\$-	\$-

Notes:

- The minimum benefit is based on the fact that the vesting criteria for the shares on issue have not yet been met.
- The maximum value is based on the value that is associated with the discount to the market price at the time that the shares were issued.

- 5.3.5** At the Annual General Meeting of Atlas South Sea Pearl Limited on 18 May 2009, shareholders approved the issue of shares to R Wright. R Wright was issued \$50,000 of his first years remuneration in the form of ordinary shares in Atlas in lieu of this amount being paid in cash. These shares were issued at a price of \$0.08 per share and were placed in escrow for one year. The total number of shares allocated was 625,000. A Further 250,000 shares were issued under the same terms and conditions to C Trifus, a senior manager who meets the definition of key management personnel. The total amount of \$70,000 was expensed in the Statement of Comprehensive Income during the 2009 year.

5.4 Service Agreements

Details of key management personnel contracts are set out below:

5.4.1 Dr J Taylor (Non-executive Director)

- In 2009, Dr J Taylor had an employment agreement in place in relation to his Technical Advisor role to the Company.
- Commencement date of contract was 1 June 2009 and was reviewed within three months of the Commencement date.
- Remuneration of services for this contract was agreed at a gross daily rate of \$750 per day for each day worked under this contract. It was intended that 100 days per calendar year will be provided in this role.
- Agreement was terminated by mutual agreement.
- Not entitled to any special termination payments under this contract.

5.4.2 Mr Richard Wright (Managing Director) (Resigned 1 September 2010)

- Employed under a fixed term contract which was due to expire on 15 May 2012.
- Base salary of \$225,000 for the last financial year, reviewed annually.
- At commencement of the contract it was agreed that \$50,000 of the first years remuneration would be in the form of Ordinary shares in Atlas in lieu of this amount being paid in cash. These shares were issued at a price of \$0.08 per share and were placed in escrow for one year. This was not linked to performance targets.
- Agreement may be terminated by mutual agreement by either party giving 6 months notice unless under specific circumstances as noted in the Agreement.
- Not entitled to any special termination payments under this contract.

5.4.3 Mr Simon Adams (Managing Director)

- Employed under a fixed term contract which was due to expire on 25 March 2014.
- Base salary inclusive of superannuation for the 2011 financial year of \$200,000, reviewed annually.
- Bonus based on 2.5% of increase in EBITDA over next 3 years from base of 2010 financial year.
- Agreement may be terminated by mutual agreement by either party giving 6 months notice unless under specific circumstances as noted in the Agreement.
- Not entitled to any special termination payments under this contract.

5.4.4 Mr Jan Jorgensen (Chief Operating Officer)

- Employed under a fixed term contract which was due to expire on 25 March 2014.
- Base salary for the 2011 financial year of \$225,000, 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 2010 financial year.
- Agreement may be terminated by mutual agreement by either party giving 6 months notice unless under specific circumstances as noted in the Agreement.
- Not entitled to any special termination payments under these contracts.

5.4.5 Mr Michael Mau (Group Financial Controller)

- Contract valid for a term of 3 years subject to termination notice below and extension to contract beyond the initial term subject to approval by both parties.
- Base salary for the 2011 financial year of \$132,000, reviewed 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.

5.4.6 Mr Colin Triefus (Retail Production Manager)

- Contract valid for a term of 3 years subject to termination notice below and extension to contract beyond the initial term subject to approval by both parties.
- Base salary for the 2011 financial year of \$107,000, reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.
- Bonus incentive to earn up to 15% of gross salary.
- 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.

5.4.7 Mr Tim Jones (Pearl Distribution and Marketing Manager)

- Contract valid for a term of 3 years subject to termination notice below and extension to contract beyond the initial term subject to approval by both parties.
- Base salary for the 2011 financial year of \$135,000 and 9% superannuation reviewed annually.
- Bonus based on 1% of increase in EBITDA over next year from base of 2010 financial year.
- The Company may terminate the executive's employment agreement by providing 3 months written notice or providing payment in lieu of the notice period.
- Not entitled to any special termination payments under these contracts.

5.4.8 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.

5.5 Additional Information not audited as part of remuneration report

5.5.1 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.

5.5.2 Options

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

6. PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

6.1 Principal Activities

The principal activity of the Company is the operation of a pearl production and distribution business in Indonesia. The Company also manufactures and sells pearl jewellery primarily in Bali, Indonesia but this constitutes approximately 10% of its revenue base.

The economic entity's objectives are to:

- Be a global leader in the production of high quality pearls;
- Enhance revenue potential through vertical integration and the expansion of its value adding opportunities;
- Provide a consistent quality of wholesale pearls and retail and wholesale jewellery for its customers;
- Improve pearl production efficiency through the implementation of results from research and development programs to maximise gross return



6.2 Review of Operations and significant changes in the state of affairs

6.2.1 Year in Review

Following the global financial crisis (GFC) of 2009, the Company has had a year of revenue growth and rebuilding of its asset base. While maintaining a focus on cost controls, an investment in capital and management resources has been made in preparation of future growth. Farm acquisitions on the islands of Alor and Flores and the establishment of a green-field site on the island of Punggu in the west of the Province of West Nusa Tenggara, Indonesia has ensured that there is sufficient infrastructure in place to achieve the stated expansion objectives of doubling pearl production by 2015.

The development of marketing and sales initiatives for the company's loose pearls has resulted in improved prices and better control over receivables. Jewellery retail distribution increased substantially through the five outlets that are owned by the company in Bali, Indonesia which caters for a growing tourist market. The upstream distribution of pearls through the retail outlets increases margins and enhances the company's brand recognition.

6.2.2 Shareholder Returns

	2010 \$	2009 \$	2008 \$	2007 \$
Net profit/(loss) after tax	2,359,974	(7,182,713)	(275,994)	8,032,843
Basic EPS	0.0186	(0.0625)	(0.0031)	0.089
Dividends paid	Nil	Nil	1,800,918	3,597,663
Dividends (per share)	Nil	Nil	0.020	0.040
Net tangible assets per share	0.142	0.133	0.248	0.260
Share price at 31 December	0.11	0.125	0.205	0.41

Normalised EBITDA and the adjustments from NPAT for these periods are shown below:

	2010 \$	2009 \$	2008 \$	2007 \$
Normalised EBITDA	867,017	(1,159,324)	3,864,237	4,813,545
Tax (expense)/ benefit	(395,139)	329,866	460,898	(3,463,022)
Interest income/(expense)	(123,588)	(64,328)	(39,266)	65,289
Depreciation	(53,849)	(74,284)	(72,604)	(74,936)
Foreign Exchange gain/(loss)	(411,839)	2,043,455	(3,885,061)	(68,182)
Agriculture Standard revaluation gain/(loss)	2,718,863	(7,272,156)	744,301	6,091,812
Other Non-Operating income/(expense)	(241,491)	(985,942)	(1,348,499)	668,337

6.2.3 Financial Position

There has been an increase in the net assets of the group of \$2.63M in the year to 31 December 2010. Movements in the net worth of the economic entity are summarised below:

- Cash reserves have decreased from \$2.509M to \$0.998M. During 2010, \$1.16M of capital was raised through a placement of 10 million shares. Working capital requirements of \$0.734M, acquisition of new pearl farms of \$0.577M and property, plant and equipment purchases of \$0.587M contributed to the decrease in cash reserves during 2010.
- Trade receivables have decreased by \$0.46M during 2010 to \$0.17M with collection periods significantly reduced from prior years.
- Stock of pearls has increased in 2010 by \$0.85M to \$4.397M due to an increase in pearl stock levels as at 31 December 2010 compared to the prior year and a significantly lower provision for impairment.
- Jewellery stocks have increased by \$0.926M in 2010 due to an increase in stock on hand from expanded ranges in the retail outlets and an expansion of stores to five in Bali.
- Oyster inventory valuations decreased by \$0.835M during 2010. There was an increase in quantity of juvenile oysters and an overall decrease in seeded oysters which have a higher unit value.
- Borrowings decreased by \$0.676M to \$3.596M in 2010 due to repayment of some of the bank loan facility within the year.
- Tax accruals decreased by \$0.983M in 2010, due mainly to the assessment made by the Indonesian Tax Authorities in relation to the groups 2007 tax year being paid in full within the year. The Company believes that this assessment is incorrect and an appeal has been lodged in Indonesia and also in Australia with the Australian Tax Office to seek a refund on double tax treaties between the two countries and this is still being assessed along with an appeal by the company against the assessment in Indonesia.
- There was an increase of \$0.228M in the assets from the mark to market valuation of the foreign exchange hedging contracts due to the appreciation of the Australian Dollar against the Japanese Yen in 2010.
- Deferred tax liability has increased by \$0.61M in 2010 as a result of the increase in the Agriculture Asset values for the group.

6.2.4 Operating Results

Atlas has recorded a net profit after tax for the year ended 31 December 2010 of \$2,359,974 (2009 – net loss of \$7,182,713).

The operating revenue increased by 42% to \$9,841,695 in 2010 from \$6,908,444 in 2009, of which pearl sales revenue represented an increase of \$2,653,000 to \$8,571,000 in 2010. The total number of pearls sold in 2010 was more than double the previous year but due to the higher number of lower grade pearls that were in stock from previous years and that were harvested during 2010, the average sale price of the pearls sold in 2010 was 16% lower than in the prior year. The average sellable grade pearl price, which is a measure of the quality pearls produced, increased by 25% in 2010.

Revenue from the sale of pearl jewellery, mother of pearl and pearl oyster sea food products was \$1,232,000 in 2010 (2009 - \$939,171). The number of jewellery retail outlets in Bali increased to five (5) in 2010 (2009 – 4 outlets).

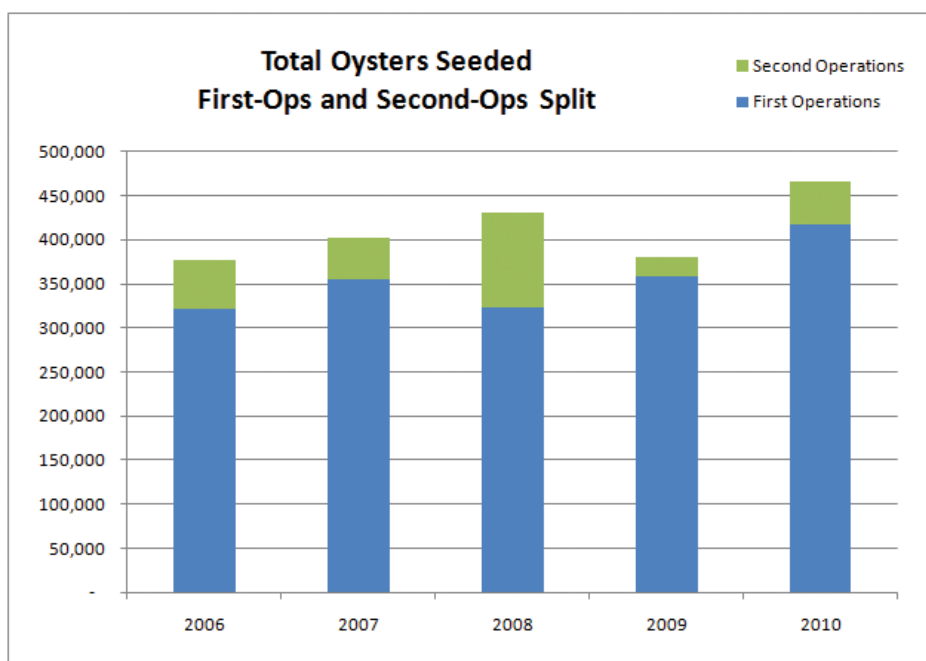
An appreciation in the value of the Australian Dollar resulted in foreign exchange gains against the Japanese Yen denominated loan and foreign exchange hedging contracts.

A significant increase in the value of biological assets (pearl oysters and loose pearls) during the period had the effect of increasing profits by \$2.72M in 2010.

6.2.5 Pearl Oyster Production Results

The 2009/10 breeding season from the hatchery in North Bali was very successful resulting in a record number of unseeded oysters in stock at the end of 2010 (1.2 million). A second hatchery was acquired with the farming assets that were purchased at Alor in 2010. The strong juvenile inventory balance at the end of 2010 will enable expansion of seeding programs in future periods as forecast.

The company seeded a record number of oysters in 2010. 418,000 of the oysters were operated for the first time with 47,000 being reseeded for a second time after harvest of a pearl.



The facilities at N. Bali were used as the central virgin oyster seeding centre in 2010. The Alor facilities will compliment this in future periods. Harvest and second operations are undertaken at the Alyui farm site following transfer from N. Bali and growout of the pearls in the nutrient rich waters of Alyui Bay.

6.2.6 Bali Project

The hatchery at N. Bali was relocated from Penyabangan to Gorokgak prior to the commencement of the 2009/10 breeding season. This was very successful and resulted in some very good spawnings and settlement of excess spat. This has resulted in a very healthy stock of juvenile oysters for future seeding expansion.

The N. Bali facilities continued to be the focus of first operation seedings. Operations are able to be closely supervised to ensure consistency of quality and ongoing training of new technicians as required. After X-Ray to determine the presence of a growing pearls, oysters are shipped to the Alyui Bay site for pearl growout where the waters are more suited to faster growth. Additional sites in the immediate vicinity of the existing N. Bali sites are being secured for expansion.

6.2.7 Alyui Bay Pearling Centre

Alyui continues to be the company's major pearl growing site. The Alyui Bay site has been able to reduce its staffing, logistics support and overall costs as a result of realigning its functions to specialise in pearl production. There has been an improvement in the proportion of oysters that are reseeded after they produce their first pearl as a result of a review of operating procedures. One camp was temporarily decommissioned during the year as a cost saving measure. This will be returned to service as the quantity of oysters at this site increases.

6.2.8 Alor/Flores Facilities

These sites were acquired as a going concern in July 2010. The overall pearling operation was made up of seven (7) separate sites. These sites perform the full range of functions from hatchery production, juvenile growout, seeding and pearl growout. The Company has focused on the upgrade of infrastructure and reorganisation of farms to allow higher quality oysters to be imported from N. Bali and reared in the Alor hatchery for future seeding. The quality of oyster stock that were acquired has been found to be poor compared to the Company's own stock in other sites.

A new site on the island of Punggu at the west end of Flores has also been established as a dedicated site for pearl growout. This is being established with relatively simple infrastructure which will ensure that pre-seeded oysters can be delivered and maintained safely.

6.2.9 Environment

It is the objective of Atlas to become the global leader of Eco pearling. Atlas's continues to be involved in protecting and supporting the environment in all areas where farming operations are located. The Company remains an active partner with Conservation International and The Nature Conservancy in being an environmental custodian of the ocean (ECO) to ensure that coral reefs and marine fauna and flora are protected. Support continues for initiatives such as maintaining buoys so that tourist boats which frequent the area in the protected and biologically important areas of Raja Ampat no longer damage the eco systems by anchoring. The Company's pearl farm in Alyui Bay is recognised as one of the top diving locations in Raja Ampat and is now routinely visited by various live-aboard dive boats, frequently carrying highly placed individuals from organisations such as Conservation International, The Nature Conservancy, World Wildlife Fund, NOAA (US National Oceanic and Aerospace Administration), World Conservation Society, Walton Family Foundation, as well as conservation minded actors and donors to various conservation organisations.

The Company supports numerous other recycling and environmental protection initiatives in N. Bali, Nusa Tenggara Timor and Raja Ampat. It is critical that the Company supports and protects its local environment to ensure its long term success. Involvement of the local communities in the implementation of the culture of conservation and environmental protection ensure the long term successes of these eco-friendly initiatives.

6.2.10 Community Relations

The Company's Corporate Social Responsibility program remains a key element in our successful engagement in Indonesia. We continue to assist local communities with the provision of medical support and transportation where this would normally not be available from the local government authorities in Indonesia. Local communities are also able to take advantage of surplus capacity that the company may have in relation to accessing technical skills and resources for the purpose of repairs and servicing of equipment such as power generators and water supplies. Through direct and indirect means, Atlas supports education for children who live close to the farm sites.

The Company also supports various cottage industries in villages located within close proximity to our farming operations. The economic support we provide to local citizens, primarily widows and retirees without a reasonable pension, is well received and supported by the community. The Company in turn benefits from these cottage industries as most are focused on repair and refurbishment of various farm equipment, thereby resulting in an expanded reuse/recycle program and additional cost savings to the Company or providing other direct support to the Company. An initiative to re-introduce traditional dancing and art into local communities has been well received and is used to entertain foreign tourists at Alyui Bay who travel on live-aboard dive boats.

6.2.11 Socio-Political and Security Situation

The Socio-political environment in Indonesia continues to improve, but the Company continues to maintain a high level of vigilance. We maintain open lines of communication with foreign embassies to provide early indications of socio-political unrest and strong communication is maintained with local, regional and national government officials. Indonesia has experienced strong economic growth in the last 12 months and its relatively new democratic system is maturing under stable leadership. Government bureaucracy continues to be an issue in Indonesia but consistent and proactive treatment of these challenges has prove successful in achieving results.

6.2.12 Personnel

Atlas continues to make necessary changes in staffing and management in order to more effectively face the challenges of a difficult world market and to ensure a more efficient and cost effective operation. With the expansion of pearling operations in Indonesia, staff numbers have increased significantly in 2010 as infrastructure is developed. Management continues to focus on ensuring that talented people are retained where possible and training and support is provided to Indonesian Nationals to promote them through the company.

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

	2010	2009	2008	2007
Expatriates – Indonesia	15	12	13	14
Indonesian nationals – permanent	338	335	421	371
Indonesian nationals – part time	126	125	122	133
Australia	5	4	4	4

6.2.13 Marketing

The Company launched a strong corporate brand in the first half of 2010. This was created to represent its image of strength and leadership in the industry. This was developed in line with a cultural shift within Atlas from being one of the best pearl producers in the world to also having a strong focus on its marketing culture.

Atlas was successful at establishing its own grading and marketing department for its loose pearls in 2010. The new sales team was able to develop a diverse client base which resulted in an improvement in price and quantity of pearls sold. The market for loose pearls in 2010 improved slightly with more confidence evident amongst wholesale traders. The grading capacity for the raw loose pearls in Indonesia and the merchandising skills for preparation for sale which is undertaken in Australia continues to improve. Atlas's regular harvesting and consistent high quality pearl has made it attractive to many large buyers who want to be primary customers of the Company.

Retail operations in Bali performed very well in 2010 as record tourist numbers were seen there. Two new stores were opened in prime locations at Nusa Dua and Kuta. Quality jewellery products, a wide selection of South Sea inspired items and an attractive shopping environment in key locations has attracted an increased number of customers to the stores. Margins were maintained on sales and various marketing strategies including the use of tour operators and guides were used effectively to generate business. A sixth retail outlet is planned for Bali in 2011 and the Company's first retail store in Australia will be opened in the second half of 2011.

Atlas has started developmental work to value add to its by-products such as mother of pearl (MOP) and oyster meat through the trial of various extraction processes. The initial research is very promising and it is expected that the commercialisation of a number of products will take place in 2011. These will show significant differentiation of Atlas as a leader in innovation within the pearling industry.

6.2.14 Research and Development

The genetics improvement programme continues to provide benefit to the Company with faster growing, strong oysters resulting from recent genetic spawning. We anticipate that this will provide for future benefit through better and more rapid pearl production and lowering costs of this production. Tagging and genetic marker identification is ensuring that the genetic diversity of our breeding oysters is maintained with distinct family groups created through our selective breeding process. Ongoing research projects, both in-house and with external partners is keeping the Company at the leading edge of product quality.

6.2.15 Conclusion

2010 was a watershed year for Atlas. In a difficult economic environment, the Company has been able to yield a profit and commence a bold expansion program for its pearling operations in Indonesia. A sound platform has been laid for the growth of the business.

Management has identified the critical issues that it needs to address in order to achieve its objectives. 2010 was the start of this process with strong operational results from the hatchery breeding program, a record quantity of oyster seedlings, strong sales and market development and a focus on strategic investment while maintaining costs.

Directors' Report

7. DIVIDENDS

No dividends were declared and paid by the Company during the financial year ended 31 December 2009 and 2010.

8. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Atlas South Sea Pearl Limited is currently undertaking a share placement to sophisticated investors. The Company will issue 6,400,000 fully paid ordinary shares in the capital of the Company at an issue price of \$0.12 each, to raise \$768,000 before costs. The new shares will rank equally with the Company's existing issued shares.

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.

9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Atlas will continue with the expansion of its farming operations in Indonesia during 2011. Infrastructure at the farm sites at Alor, East Flores and Punggu are being upgraded to enable increased quantities of oysters to be farmed.

With the second hatchery at Alor being introduced for the 2010/11 and future breeding seasons, it is expected that juvenile oyster production will increase in 2011 to enable the expanded pearl production targets to be met. By the end of 2011, it is anticipated that there will be approximately 2-2.5 million unseeded oysters held in stock, approximately double the number that were in stock at the end of 2010. Based on breeding results to date for the 2010/11 hatchery season, the Alor hatchery has under-performed due to the a delay in equipment upgrades and poor brood stock preparation but the N. Bali hatchery has produced sufficient spat to make up any shortfall.

Oyster seedlings in 2011 are expected to increase to between 550,000 to 600,000 depending on the availability of suitable virgin oysters and the proportion of harvested oysters that are re-operated. Training programs for additional seeding technicians are ongoing with close supervision provided to ensure that quality control for this integral process is maintained. Management efforts are being focused on the quality of seeding and oyster husbandry to improve survival and retention of nuclei after operations and increase the percentage of high quality pearls that are harvested.

The Company's loose pearl grading and sales division which was established in 2010 will continue to develop and improve its product merchandising capacity and customer relations. By matching customer specific requirements with inventory availability and keeping a close watch on market developments, Atlas will ensure that it is able to maximise its return from loose pearl sales.

A sixth retail outlet will be opened in Bali in the first half of 2011 taking the total number of outlets to six. Atlas is moving its Australian headquarters to a new premises in Perth which will incorporate a retail outlet, the first for the Company in Australia. There will be an improvement in branding and product marketing for the retail outlets as the Company rolls out its expanded retail strategy. Product development is continuing in relation to extracts from pearl by-product such as mother of pearl and oyster meat for the manufacture of value added products.



Atlas consciously seeks to make a practical contribution to local communities and is a major employer in some of South East Asia's most remote regions. Over 80% of pearl farm staff are sourced from the surrounding villages. This is a continuous program of work for Atlas but a few initiatives established to date include.

- Building and refurbishing schools in Bali and Papua.
- Establishing scholarship programmes for under-privileged children.
- Offering transport to the remote islands of Raja Ampat from the Sorong mainland.
- Health services including access to a fully equipped medical clinic in Alyui Bay.
- Technology knowledge transfer and training programmes for Indonesian Nationals particularly in hatchery and pearl seeding.
- The development of a recycling venture with half the proceeds going to a staff loan facility.



Oyster panel cleaning boats at work on the Alyui Bay pearl farm in Raja Ampat, Papua Province. This farm site is located 100 nautical miles from the nearest sea port of Sorong. The nearest villages of Selpelle and Saleo are less than 5 nautical miles from the farm and provide seafood and other food supplies for the farm camps. This low level of human interference within close proximity of the oyster farms ensures that pollution risk is minimised.

Raja Ampat is renowned to have one of the most biodiverse marine environments in the world. Conservation International has established a marine preservation area close to the pearl farms and Atlas provides assistance to this organisation in the form of logistics support in the area. The oyster farming activities compliment the biodiversity of the area by creating environments that encourage flora and fauna to thrive on the longlines and anchors that form the holding structures for the oysters.

Directors' Report

10. 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	
	Direct	Indirect
S.P. Birkbeck	-	17,155,581
J.J.U. Taylor ¹	20,000	1,200,000
S.C.B. Adams ¹	166,666	500,000
G. Newman	-	400,000

^{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).

11. OPTIONS

The Company had no options granted over unissued shares during or since the end of the financial year.

12. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

12.1 Indemnification

The Company has agreed to indemnify the following current directors of the Company; Mr S Birkbeck, Dr J Taylor, Mr S Adams and Mr G Newman and the following former directors; 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.

12.2 Insurance Premiums

Since the end of the previous financial year the Company has paid insurance premiums of \$18,436 (2009 - \$18,370) in respect of directors' and officers' liability and legal expenses insurance contracts, for current and former Directors and Officers.

13. 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.

Directors' Report

14. 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:

	Consolidated	
	2010	2009
AUDIT SERVICES	\$	\$
BDO Australian Firm:		
Audit and review of financial reports	66,858	70,326
Related practices of BDO Australian Firm	33,404	32,147
Total remuneration for audit services	100,262	102,473
NON-AUDIT SERVICES		
Other assurance services		
BDO Australian Firm:		
Audit of regulatory returns	-	-
Related practices of BDO Australian Firm	-	-
Total remuneration for other assurance services	-	-
TAXATION SERVICES		
BDO Australian Firm:		
Tax compliance services and advice	37,783	21,449
Related practices of BDO Australian Firm	1,607	1,947
Total remuneration for taxation services	39,390	23,396
Total remuneration for non-audit and taxation services	39,390	23,396

15. AUDITORS INDEPENDENCE DECLARATION

A copy of the auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Signed in accordance with a resolution of the Directors



S.P Birkbeck
Chairman
31 March 2011

For personal use only

Auditor's Independence Declaration



Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

31 March 2011

The Board of Directors
Atlas South Sea Pearl Limited
43 York Street
SUBIACO WA 6005

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF ATLAS SOUTH SEA PEARL LIMITED

As lead auditor of Atlas South Sea Pearl Limited for the year ended 31 December 2010, 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 South Sea Pearl Limited and the entities it controlled during the year.

Glyn O'Brien
Director

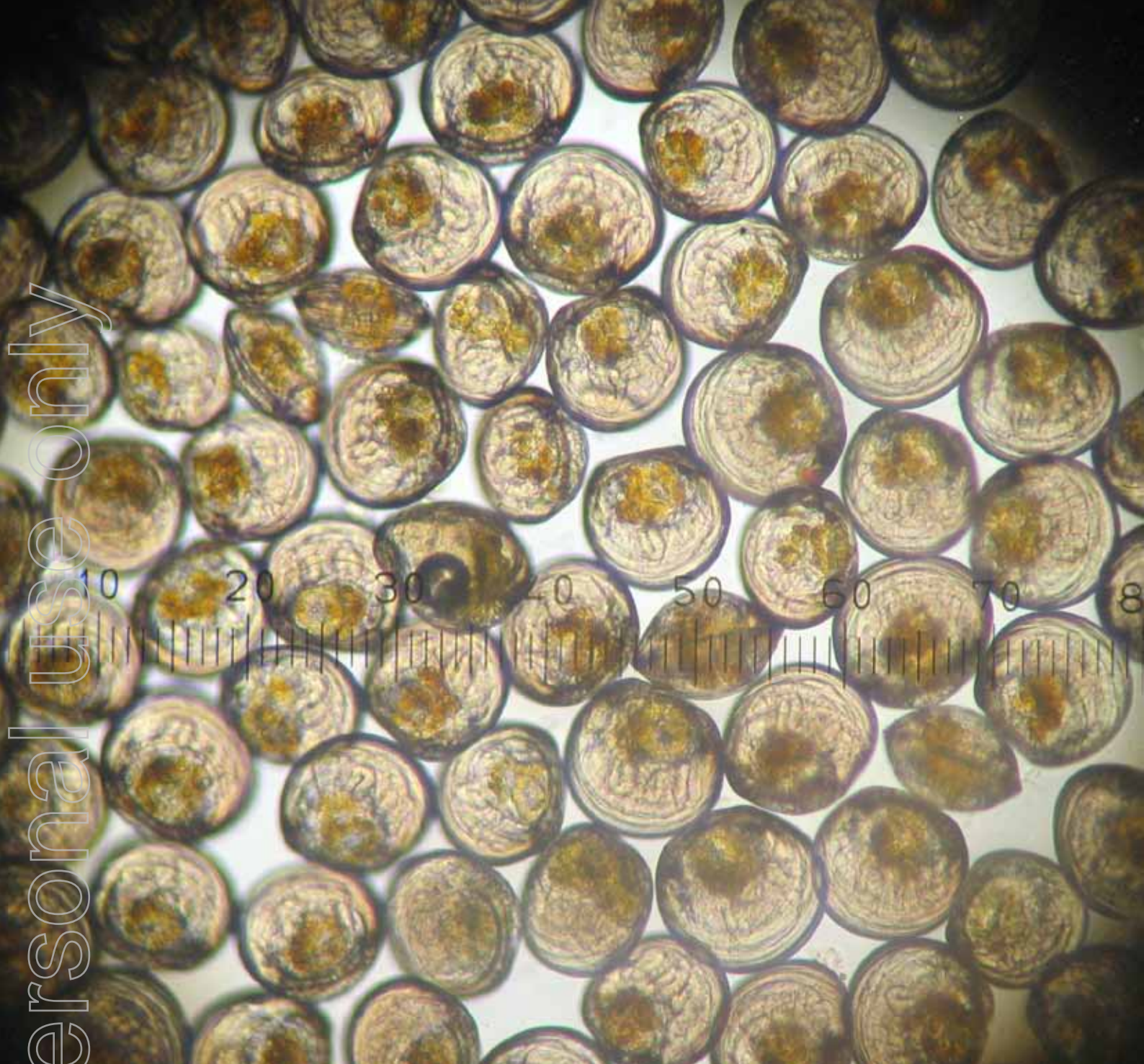
BDO Audit (WA) Pty Ltd
Western Australian, Perth

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of separate entities which are all members of BDO (Australia) Limited ACN 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Limited are members of BDO International Limited, a UK company limited by guarantee, and form a part of the international BDO network of independent member firms. Liability limited by scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.



Such has been the success of Atlas' existing three retail stores, Atlas launched an additional two new retail stores in Bali during 2010 in the prime locations of Nusa Dua and Kuta. Offering quality jewellery products, a wide selection of South Sea inspired items and an attractive shopping environment in key locations has attracted an increased number of customers to the stores. A sixth retail outlet is planned for Bali in 2011 and the Company's first retail store in Australia will be opened in the second half of 2011.

For personal use only



Research and development has been the cornerstone of Atlas' achievements. A scientific approach to pearl oyster breeding and husbandry has seen Atlas produce quality crops consisting almost entirely of beautiful silver and white pearls.

Atlas has embarked on an ambitious long-term breeding trial with geneticists from Australia's James Cook University. Through developing a unique DNA pedigree, this project will further improve our breeding lines, increasing pearl quality and yield rates.

The plethora of research and development work accomplished by Atlas over many years is recognized by scientists around the world. Atlas researchers have presented their scientific findings at major international conferences in Europe, Asia and Australia and a number of key publications have appeared in leading scientific journals.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 \$	2009 \$
Revenue from continuing operations	2	9,841,695	6,908,444
Cost of goods sold		(5,138,833)	(3,511,366)
Gross profit		4,702,862	3,397,078
Other income	2	4,218,594	4,239,650
Marketing expenses		(622,797)	(859,683)
Administration expenses	3	(3,176,472)	(5,378,281)
Finance costs	3	(191,971)	(148,014)
Research and development		(55,280)	(50,000)
Other expenses	3	(2,119,823)	(8,713,329)
Profit/(Loss) before income tax		2,755,113	(7,512,579)
Income tax (expense)/benefit	4	(395,139)	329,866
Profit/(Loss) for the year from continuing operations		2,359,974	(7,182,713)
Other comprehensive income/(expenses)			
Exchange differences on translation of foreign operations		(892,873)	(1,139,891)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income/(expenses) for the year, net of tax		(892,873)	(1,139,891)
Total comprehensive income/(expenses) for the year		1,467,101	(8,322,604)
Profit/(loss) is attributable to:			
Owners of the Company		2,359,974	(7,182,713)
Total comprehensive income/(expenses) is attributable to:			
Owners of the Company		1,467,101	(8,322,604)
Overall operations :			
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share (cents)	5	1.86	(6.25)
Diluted earnings per share (cents)	5	1.86	(6.25)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2010

	Note	2010 \$	2009 \$
Current assets			
Cash and cash equivalents	6	998,335	2,508,711
Trade and other receivables	7	1,239,095	1,451,355
Derivative financial instruments	8	240,053	12,468
Inventories	9	6,375,746	2,675,646
Biological assets	10	5,305,465	8,800,587
Total current assets		14,158,694	15,448,767
Non-current assets			
Trade and other receivables	7	173,698	162,565
Inventories	9	83,415	103,913
Biological assets	10	8,476,047	5,816,129
Property, plant and equipment	11	2,217,156	2,195,780
Deferred tax assets	14(b)	1,430,258	1,040,645
Total non-current assets		12,380,574	9,319,032
Total assets		26,539,268	24,767,799
Current liabilities			
Trade and other payables	12	1,743,239	1,440,904
Borrowings	13	3,596,120	4,271,994
Derivative financial instruments	8	-	-
Current tax liabilities	14(a)	42,446	680,895
Short-term provisions	15	49,057	468,035
Total current liabilities		5,430,862	6,861,828
Non-current liabilities			
Trade and other payables	12	-	24,679
Deferred tax liabilities	14(a)	1,800,493	1,187,607
Long term provisions	15	-	15,281
Total non-current liabilities		1,800,493	1,227,567
Total liabilities		7,231,355	8,089,395
Net assets		19,307,913	16,678,404
Equity			
Contributed equity	16	23,234,922	22,073,494
Reserves	17	(7,082,381)	(6,190,488)
Retained profits/(accumulated losses)	18	3,155,372	795,398
Total equity		19,307,913	16,678,404

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2010

Consolidated		Attributable to owners of Atlas South Sea Pearl Limited				
	Note	Contributed equity \$	Share based payment reserve \$	Foreign currency translation reserve \$	Retained earnings/ (accumulated losses) \$	Total equity \$
Balance at 1 January 2009		19,250,564	59,085	(5,116,617)	7,978,111	22,171,143
Profit/(loss) for the year		-	-	-	(7,182,713)	(7,182,713)
Exchange differences on translation of foreign operations		-	-	(1,139,891)	-	(1,139,891)
Total comprehensive income for the year		-	-	(1,139,891)	(7,182,713)	(8,322,604)
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	16	2,822,930	-	-	-	2,822,930
Dividends provided for or paid	19	-	-	-	-	-
Employee share scheme	17	-	6,935	-	-	6,935
		2,822,930	6,935	-	-	2,829,865
Balance at 31 December 2009		22,073,494	66,020	(6,256,508)	795,398	16,678,404
Balance at 1 January 2010		22,073,494	66,020	(6,256,508)	795,398	16,678,404
Profit/(loss) for the year		-	-	-	2,359,974	2,359,974
Exchange differences on translation of foreign operations		-	-	(892,873)	-	(892,873)
Total comprehensive income for the year		-	-	(892,873)	2,359,974	1,467,101
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs	16	1,161,428	-	-	-	1,161,428
Dividends provided for or paid	19	-	-	-	-	-
Employee share scheme	17	-	980	-	-	980
		1,161,428	980	-	-	1,162,408
Balance at 31 December 2010		23,234,922	67,000	(7,149,381)	3,155,372	19,307,913

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2010

	2010 \$	2009 \$
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	9,219,224	8,528,517
Proceeds from other operating activities	639,244	229,171
Interest paid	(158,706)	(112,805)
Interest received	39,004	46,093
Payments to suppliers and employees	(9,233,196)	(9,804,468)
Income tax(paid)/received	(1,239,650)	(341,729)
Net cash provided by/(used in) operating activities(Note 24.2)	(734,080)	(1,455,220)
Cash flows from investing activities		
Acquisition of pearling operation	(576,885)	-
Payments for property, plant and equipment	(587,284)	(109,178)
Net cash provided by/(used in) investing activities	(1,164,169)	(109,178)
Cash flows from financing activities		
Proceeds from borrowings	15,743,940	8,575,029
Repayment of borrowings	(16,465,161)	(7,733,109)
Proceeds from issue of shares	1,091,427	2,822,931
Repayment of loan to employees	47,250	-
Dividend payment	-	-
Net cash provided by/(used in) financing activities	417,456	3,664,851
Net increase/(decrease) in cash and cash equivalents	(1,480,793)	2,100,453
Cash and cash equivalents at the beginning of the financial year	2,508,711	437,464
Effects of exchange rate changes on cash and cash equivalents	(29,583)	(29,206)
Cash and cash equivalents at the end of the financial year (Note 24.1)	998,335	2,508,711

The accompanying notes form part of these financial statements.

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.

The financial statements cover the consolidated entity of Atlas South Sea Pearl Ltd and its subsidiaries. Atlas South Sea Pearl 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 31st March 2011. 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.

The Group had to change some of its accounting policies as the result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 January 2010. The affected policies and standards are:

AASB 2009-5 Amendment to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5,101,107,117 and 136).

AASB 2009-8 Amendment to Australian Accounting Standards arising from the Annual Improvements Project – Group Cash-settled Share-based Payment Transactions.

The adoption of these standards did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

1.2 Compliance with IFRS

The consolidated financial statements of the Atlas South Sea Pearl Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

1.3 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.

1.4 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 1.31.

1.5 Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Atlas South Sea Pearl Limited ("Company" or "parent entity") as at 31 December 2010 and the results of its subsidiaries for the year then ended. Atlas South Sea Pearl 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.

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

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.

1.6 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.

1.7 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 1.8
- (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.

1.8 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.

1.9 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.

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	
	2010	2009
Leasehold land & buildings & improvements	5-10%	5-10%
Vessels	10%	10%
Plant & equipment	20-50%	20-50%

1.10 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 balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

(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 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.

1.11 **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.

1.12 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.

1.13 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 South Sea Pearl 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.

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.

1.14 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 South Sea Pearl Limited 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.

The fair value at grant date is considered to be the current share price on the date of granting.

1.15 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.

1.16 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.

1.17 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:

- (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.

1.18 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.

1.19 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.

Collectibility 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.

1.20 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.

1.21 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.

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.

1.22 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.

1.23 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.

1.24 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.

1.25 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.

1.26 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.

1.27 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.

1.28 Comparative Figures

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

1.29 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.

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.

1.30 Parent entity financial information

The financial information for the parent entity, Atlas South Sea Pearl Limited, disclosed in note 31 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 South Sea Pearl Limited

(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.

1.31 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.

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 2010 or 2009.

– Impairment of financial assets

In the 2009 and 2010 financial statements, the group made a significant judgment about the impairment of a number of its financial assets included within other receivables. These relate to loans to employees issued under the employee share plan. The shares issued to employees under the plan are held in trust until the loans are repaid in full. The group follows the guidance within AASB 139 Financial Instruments: Recognition and Measurement on determining when the financial assets are impaired. This determination requires significant judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost. An impairment loss of \$65,875 (2009:\$84,875) has been expensed in the Statement of Comprehensive Income in the year.

– Impairment of biological assets

In the 2009 financial statements, the group made a significant judgement about the impairment of its biological assets. The group undertook an impairment review in relation to juvenile oysters as a result of unexpected mortalities in the month of December 2008 caused by environmental factors. The total impairment loss expensed in the Statement of Comprehensive Income in the 2009 financial year was \$447,445. There was no impairment recognised in the 2010 financial year.

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

– Impairment of pearl inventories

In the 2009 financial statements, the group made a significant judgement about the impairment of its pearl inventory after taking into account the sales achieved in the beginning of the 2010 financial year. The impairment reflected the actual sales prices achieved on the stock held as at 31 December 2009. The total impairment loss expensed in the Statement of Comprehensive Income in the 2009 financial year was \$522,042. In 2010 the group made a significant judgement about the impairment of its lower grade pearl inventory on hand at 31 December 2010 – an impairment provision was made for \$224,087 in the Statement of Comprehensive Income in the year.

– 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 2010 are as follows:

	2010	2009
Average selling price for pearls ¹	¥6,600 per momme	¥6,600 per momme
¥ exchange rate	¥82.83:AUD1.00	¥82.35:AUD1.00
Average pearl size	0.67 momme	0.67 momme
Proportion of market grade pearls	70%	70%
Discount rate applied to cash flow	20%	20%
Mortality & Rejection rates	Historical comparison	Historical comparison
Average unseeded oyster value ²	\$1.89	\$2.80

1. Average pearl prices are based on historical averages discounted for potential market volatility
2. The average value of unseeded oysters has decreased due to the higher portion of smaller juvenile oysters compared to the overall unseeded quantity in 2010.

Biological assets are valued using estimated future yen rates. Biological assets recognised as current assets on the balance sheet 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 2010

2. REVENUE FROM CONTINUING OPERATIONS

	2010 \$	2009 \$
Sales revenue		
Sale of goods	9,544,904	6,762,305
Other revenue		
Interest income	38,383	51,741
Other revenues	258,408	94,398
Revenue	9,841,695	6,908,444
Change in net market value of biological assets		
Change in fair value less point of sale costs of oysters	331,297	-
Gain arising on initial recognition of harvested pearls	2,387,567	-
	2,718,864	-
Other income		
Foreign exchange gains	1,160,827	1,268,163
Gain on foreign currency derivatives not qualifying as hedges	287,853	2,971,487
Gain on bargain purchase of pearling operation	51,050	-
Other income	4,218,594	4,239,650

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS

	2010 \$	2009 \$
Administration expenses from ordinary activities		
Salaries and wages	1,640,534	1,466,874
Depreciation property, plant and equipment	53,849	74,284
Loss on sale of property, plant and equipment	-	-
Loss on foreign currency derivatives not qualifying as hedges	87,665	1,261,416
Share based payment to employees	980	76,935
Operating lease rental costs	192,046	138,071
Provision for tax penalties	-	400,656
Indirect taxes (previous years)	-	428,917
Compliance and finance	478,849	315,624
Other	722,549	1,215,504
	3,176,472	5,378,281
Other expenses		
Foreign exchange loss	1,772,854	934,779
Provision for employee entitlements	57,007	45,479
Change in net market value of biological assets		
Change in fair value less point of sale costs of oysters	-	3,334,317
Loss arising on initial recognition of harvested pearls	-	3,344,392
Impairment losses – financial assets		
Other receivables (refer note 7)	65,875	84,875
Impairment of other assets	-	447,445
Biological assets (refer note 10)	224,087	522,042
Pearl Inventories (refer note 9)	2,119,823	8,713,329
Finance costs		
Interest and finance charges payable	191,971	148,014
	191,971	148,014
Net loss on foreign currency derivatives not qualifying as hedges	200,188	1,710,071

4. INCOME TAX EXPENSE

	2010 \$	2009 \$
a) The components of tax expense/(benefit) comprise:		
Current tax	171,866	1,587,490
Deferred tax	223,273	(1,917,356)
	<u>395,139</u>	<u>(329,866)</u>
b) Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease(increase) in deferred tax assets (note 14)	(389,613)	137,395
(Decrease)increase in deferred tax liabilities (note 14)	612,886	(2,054,751)
	<u>223,273</u>	<u>(1,917,356)</u>
c) Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax expense	2,755,113	(7,512,579)
Tax at the Australian tax rate of 30%		
Tax effect of amounts which are not deductible in calculating taxable income:	826,534	(2,253,774)
Non deductible expenses	(37,377)	456,862
Tax losses not brought to account	2,717	3,950
Sundry items	(5,183)	(4,983)
Permanent Differences (Indonesia)	(398,377)	226,409
Previously unrecognised tax losses used to reduce current tax expense	-	-
Difference in overseas tax rates	(29,037)	(821)
Income tax under/(over) provided in prior years	35,863	1,242,491
Income tax expense/(benefit)	<u>395,139</u>	<u>(329,866)</u>
Weighted average effective tax rates	16.7%	N/A

Refer note 22 regarding income tax under/(over) provided for prior years for details in relation to double taxation relating to 2007 fiscal period.

In 2010 the effective tax rate for the consolidated entity has been affected by the corporation tax rate in Indonesia which has been reduced to 25% for the 2010 financial year, from 28% in 2009 and 30% previously. The rate has also been affected by the tax losses in Atlas recognised as deferred tax assets in the year.

4. INCOME TAX EXPENSE (Cont.)

	2010 \$	2009 \$
d) Deferred income tax at 31 December relates to the following:		
Deferred tax liabilities		
Accrued interest	1,974	(2,389)
Fair value adjustment on biological assets and agricultural produce	(806,973)	2,016,878
Prepayments	823	(823)
Deferred tax assets		
Difference in accounting and tax depreciation	(39,769)	103,166
Accruals	(122,162)	133,200
Provisions	50,185	46,817
Unrealised foreign exchange losses	(1,731)	(886,800)
Unrealised foreign exchange gains	173,454	132,008
Other	520,926	375,299
Deferred tax income/(expense)	(223,273)	1,917,356

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

5. EARNINGS /(LOSS)PER SHARE

	2010	2009
	\$	\$
Basic earnings /(loss)per share (cents per share)	0.0186	(0.0625)
Diluted earnings/(loss) per share (cents per share)	0.0186	(0.0625)
	2010	2009
	\$	\$
Earnings reconciliation		
Net profit/(loss) used for basic earnings	2,359,974	(7,182,713)
After tax effect of dilutive securities	-	-
Diluted earnings/(loss)	2,359,974	(7,182,713)
Weighted average number of ordinary shares outstanding during the year used for calculation of basic earnings per share	127,186,864	114,837,084
Weighted average number of potential ordinary shares outstanding during the year used for calculation of diluted earnings per share	127,186,864	114,837,084

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

Ordinary shares issued to employees are included in the weighted average number of potential ordinary shares. They do not have a dilutive effect on earnings as they are already issued.

6. CASH AND CASH EQUIVALENTS

	2010	2009
	\$	\$
Cash at bank	998,335	2,508,711
	998,335	2,508,711

Interest rate risk exposure

The Group's exposure to interest rate risk is disclosed in note 32. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

7. TRADE & OTHER RECEIVABLES

	2010 \$	2009 \$
CURRENT		
Trade receivables	170,280	629,585
Income tax receivable	73,224	198,653
Sundry debtors & prepayments	995,591	643,492
Impairment of sundry debtors	-	(88,375)
Loans to key management personnel and employees	-	68,000
	<u>1,239,095</u>	<u>1,451,355</u>
NON-CURRENT		
Loans to key management personnel and employees	412,198	396,565
Impairment of employee loans	(238,500)	(234,000)
	<u>173,698</u>	<u>162,565</u>

Details regarding loans to employees and key management personnel are set out in note 25.

(a) Impaired trade receivables

There were no impaired trade receivables for the group in 2010 or 2009.

(b) Impaired other receivables

As at 31 December 2010 current other receivables of the group with a value of \$238,500 (2009: \$322,375) were impaired. The receivables relate to debtors secured on shares of which the fair value is substantially lower than cost as at 31 December 2010. The ageing of these receivables is all due in more than 12 months. The impairment expense of \$65,875 (2009:\$84,875) for the period has been expensed within other expenses in the Statement of Comprehensive Income for the year.

7. TRADE & OTHER RECEIVABLES (Cont.)

Movements in the provision for impairment of other receivables are as follows:

	2010 \$	2009 \$
As at 1 January	322,375	237,500
Provision for impairment recognised during the year	65,875	84,875
Receivables written off during the year as uncollectable	(149,750)	-
Unused amount reversed	-	-
	<u>238,500</u>	<u>322,375</u>

(c) Past due but not impaired

As at 31 December 2010, trade receivables of \$150,981, (2009:\$429,609) 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 trade terms for Pearlautore have been extended as part of the finalisation of the marketing contract which was not renewed after 31 December 2009. The carrying value of these renegotiated receivables at 31 December 2010 was \$149,564. This debt has been paid post year end. The ageing analysis of these trade receivables is as follows:

	2010 \$	2009 \$
Up to one month	-	91,374
2-3 months	-	268,400
3 months and above	150,981	69,835
	<u>150,981</u>	<u>429,609</u>

The other classes within trade and other receivables do not contain impaired assets other than those disclosed and are not past due. Based on the credit history of these other classes, and also that a majority is due from current employees, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables, other than \$412,198 (2009:\$464,565) for loans to employees where the shares are held in trust until the loans are repaid in full.

(d) Other receivables

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

(e) 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 32.

(f) 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 non current portion of key management personnel loans is also considered to be at its fair value at balance date.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above with the exception of key management personnel loans which are secured by the shares held in trust. Refer to note 32 for more information on the risk management policy of the Group and the credit quality of the entity's trade receivables.

8. DERIVATIVE FINANCIAL INSTRUMENTS – Current

	2010 \$	2009 \$
Forward foreign exchange contracts - assets	240,053	12,468
Forward foreign exchange contracts - liabilities	-	-

(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 32)

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 1.11 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 32.

9. INVENTORIES

	2010 \$	2009 \$
CURRENT		
Pearls – at fair value	4,620,753	2,355,683
Pearls – impairment	(224,087)	(522,042)
Pearls – at cost	-	-
	4,396,666	1,833,641
Other – at cost	1,979,080	842,005
	6,375,746	2,675,646
NON CURRENT		
Nuclei – at cost	83,413	103,913
TOTAL INVENTORY	6,459,159	2,779,559

A reconciliation of the movement on the fair market value of the pearls is as follows:

Carrying amount at beginning of the year	2,355,683	6,328,882
Harvest of new pearls	10,690,346	4,463,798
Deemed cost of pearls sold	(10,812,843)	(5,045,038)
Gain/(Loss) from changes to fair value less estimated point of sale costs	2,387,567	(3,344,392)
Net effect of change in pearls at cost	-	(47,567)
Carrying amount at end of the year	4,620,753	2,355,683

Inventories recognised as an expense during the year ended 31 December 2010 amounted to \$115,355 (2009:\$nil) for the Group. This is included within admin expenses in the Statement of Comprehensive Income.

10. BIOLOGICAL ASSETS

	2010 \$	2009 \$
CURRENT		
Oysters – at fair value	5,305,465	8,800,587
NON CURRENT		
Oysters – at fair value	8,476,047	5,816,129
Oysters – impairment	-	-
	8,476,047	5,816,129
Total Biological Assets	13,781,512	14,616,716

10. BIOLOGICAL ASSETS (Cont.)

In 2008 the Company undertook an impairment test in relation to juvenile oysters as a result of unexpected mortalities in the month of December caused by environmental factors. Inventories recognised as an expense during the year ended 31 December 2008 amounted to \$575,462 and consisted of the impairment charge recognised in relation to the unexpected mortalities of juvenile oysters. In relation to this same event a further \$447,445 was expensed for the 2009 financial year.

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

Nature:- Oysters (*Pinctada Maxima*)

	2010 No.	2009 No.
Quantity held within the Group operations:-		
Juvenile and mature oysters which are not seeded	1,261,081	709,997
Nucleated oysters	743,537	775,806
	2,004,618	1,485,803

During the year ended 31 December 2010, the Group harvested approximately 388,583 (2009:123,790) pearls. A reconciliation of the movement in the fair market value of the oysters during the year is reflected as follows:

	2010 \$	2009 \$
Oysters		
Carrying amount at beginning of the year	14,616,716	18,625,996
Value of new juvenile oysters recognised into stock	1,875,512	1,895,076
Increase in value of stock from change in pearl oyster development	11,362,695	7,103,059
Decrease in value through natural mortality	(3,028,432)	(3,319,168)
Decrease in value of Agriculture asset from harvest of pearls	(10,690,346)	(4,463,798)
Gain/(Loss) from changes to fair value less estimated point of sale costs	331,297	(3,344,392)
Exchange adjustment	(1,170,199)	(1,880,057)
Acquisition of pearling operation	484,269	-
Carrying amount at end of the year	13,781,512	14,616,716

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 1.31. The following table summarises the potential impact of changes in the key non-production related variables:

Discount rate	Selling Price (¥/momme)					
	-10%		No Change		+10%	
	¥5,940		¥6,600		¥7,260	
	Profit \$	Equity \$	Profit \$	Equity \$	Profit \$	Equity \$
22%	-2,149,581	-2,149,581	-442,816	-442,816	1,263,950	1,263,950
20%	-1,940,756	-1,940,756	-	-	1,541,813	1,541,813
18%	-1,723,936	-1,723,936	53,212	53,212	1,830,360	1,830,360

FX rate	Selling Price (¥/momme)					
	-10%		No Change		+10%	
	¥5,940		¥6,600		¥7,260	
	Profit \$	Equity \$	Profit \$	Equity \$	Profit \$	Equity \$
¥91.11	-3,429,010	-3,429,010	-1,853,087	-1,853,087	-277,165	-277,165
¥82.83	-1,940,756	-1,940,756	-	-	1,541,813	1,541,813
¥74.55	-103,483	-103,483	1,841,942	1,841,942	3,787,368	3,787,368

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.

11. PROPERTY, PLANT AND EQUIPMENT

	2010 \$	2009 \$
(a) Non-Pearling Assets		
Plant and equipment		
- at cost	154,620	103,011
- accumulated depreciation	(105,950)	(99,357)
	48,670	3,654
(b) Pearling project		
Land (leasehold and freehold) and buildings		
- at cost	1,463,012	1,299,687
- accumulated depreciation	(689,192)	(716,619)
	773,820	583,068
Plant and equipment, vessels, vehicles		
- at cost	4,643,388	4,805,119
- accumulated depreciation	(3,248,722)	(3,196,061)
	1,394,666	1,609,058
Total pearling project	2,168,486	2,192,126
Total property, plant and equipment	2,217,156	2,195,780

Included in Pearling project land (leasehold and freehold) and buildings is \$151,371 (2009 - \$137,804) which represents construction of buildings in progress at cost.

Reconciliations of the carrying amount for each class of property, plant and equipment are set out below:

(a) General		
Carrying amount at beginning of the year	3,654	3,501
Additions	51,610	3,873
Disposals	-	-
Depreciation	(6,594)	(3,720)
Carrying amount at end of the year	48,670	3,654
(b) Pearling project		
Leasehold land and buildings		
Carrying amount at beginning of the year	583,068	790,251
Additions	287,698	96,084
Acquisition of pearling operation	7,450	-
Disposals/writedowns	-	(182,399)
Depreciation	(35,174)	(44,948)
Foreign exchange movement	(69,222)	(75,920)
Carrying amount at end of the year	773,820	583,068

11. PROPERTY, PLANT AND EQUIPMENT (Cont.)

	2010 \$	2009 \$
(c) Plant and equipment, vessels, vehicles		
Carrying amount at beginning of the year	1,609,058	2,013,749
Additions	247,976	197,119
Acquisition of pearling operation	136,216	-
Disposals / writedowns	(90,352)	-
Depreciation	(391,649)	(404,710)
Foreign exchange movement	(116,583)	(197,100)
Carrying amount at end of the year	1,394,666	1,609,058
Total Carrying amount	2,217,156	2,195,780

Refer note 32 for information on non-current assets pledged as security by the Group.

12. TRADE AND OTHER PAYABLES

CURRENT		
Trade payables	525,222	124,931
Other payables and accrued expenses	1,218,017	1,315,973
	1,743,239	1,440,904
NON-CURRENT		
Other payables and accrued expenses	-	24,679
	-	24,679

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

Other payables includes accruals for annual leave of \$658,168 and \$381,488 in the consolidated entity for 2010 and 2009 respectively. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months.

(b) Risk Exposure

Information about the Groups exposure to foreign exchange risk is provided in note 32.

13. BORROWINGS

	2010 \$	2009 \$
CURRENT		
Secured		
Bank loan	3,489,905	4,187,535
Total secured current borrowings	3,489,905	4,187,535
Unsecured		
Other	106,215	84,459
Total current borrowings	3,596,120	4,271,994

(a) Security and fair value disclosure

Information about the security relating to secured liabilities and the fair value is provided in note 32.

(b) Risk Exposure

Information about the Groups exposure to risks arising from borrowings is provided in note 32.

14. TAX

(a) Liabilities		
CURRENT		
Income tax payable	42,446	680,895
NON-CURRENT		
Deferred tax liabilities comprises temporary differences attributable to -		
Agricultural and biological assets at fair value	1,713,304	924,167
Prepayments	-	823
Accrued interest income	484	2,458
Unrealised foreign exchange gains	86,705	260,159
Total deferred tax liabilities	1,800,493	1,187,607

14. TAX (Cont.)

	2010 \$	2009 \$
(b) Assets		
Deferred tax assets comprises temporary differences attributable to -		
Tax allowances relating to property, plant & equipment	68,754	108,523
Agricultural and biological assets at fair value	73,087	90,923
Accruals	19,348	141,600
Provisions	233,330	183,145
Impairment of assets	71,550	253,326
Unrealised foreign exchange losses	2,079	3,810
Other	22,371	19,186
	490,519	800,513
Tax losses recognised	939,739	240,132
Total deferred tax assets	1,430,258	1,040,645

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.

(c) Reconciliations		
The overall movement in deferred tax account is as follows:		
Opening balance	(146,962)	(2,064,318)
(Charge)/credit to statement of comprehensive income	(223,273)	1,917,356
Other movements	-	-
Closing balance	(370,235)	(146,962)

15. PROVISIONS

CURRENT		
Employee benefits	49,057	67,379
Provision for tax penalties	-	400,656
Total current	49,057	468,035
NON CURRENT		
Employee benefits	-	15,281
Total provisions	49,057	483,316
Number of employees	484	482

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.

15. PROVISIONS (Cont.)

	2010 \$	2009 \$
Reconciliation of provisions:		
Balance at beginning of year	483,316	97,014
Provision used	(437,328)	(21,393)
Unused provisions reversed	-	-
Provisions added	3,069	407,695
Closing balance	49,057	483,316

16. CONTRIBUTED EQUITY

	2010 No. of shares	2009 No. of shares	2010 \$	2009 \$
Issued and fully paid-up capital	136,358,097	125,483,097	23,234,922	22,073,494
Reconciliation of Issued Capital -				
Balance at beginning of year	125,483,097	89,220,890	22,073,494	19,250,564
Shares issued ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	10,875,000	36,262,207	1,161,428	2,822,930
Shares forfeiture ⁽¹⁾	-	-	-	-
Balance at end of year	136,358,097	125,483,097	23,234,922	22,073,494

⁽¹⁾ Refer Note 23 for details of shares issued to employees and employee shares forfeited.

⁽²⁾ On 26 February 2009 the Company announced a Rights Issue. The Company issued fully paid ordinary shares in the capital of the Company at an issue price of \$0.08 each. The new shares were offered on the basis of 1 new share for every 3 fully paid ordinary shares. 25,012,207 shares were issued under the Rights Issue. The balance of the shares, 4,728,090 shares were placed with professional investors. In addition to this, the Company issued a further 6,521,910 shares to sophisticated investors on the same terms as the shares offered under the Rights Issue. The total amount raised was \$2,822,930 after associated costs. The shares rank equally with the Company's existing issued shares.

⁽³⁾ On 15 November 2010 the Company issued fully paid ordinary shares in the capital of the Company at an issue price of \$0.11 each. A total of 10,000,000 shares were issued to a sophisticated investor. The total amount raised after associated costs was \$1,091,428. The shares rank equally with the Company's existing issued shares.

⁽⁴⁾ In May 2010, 875,000 shares were issued to executives of the Company as a part of their remuneration package (refer 5.3.5 of Directors' Report)

(i) 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.

(ii) 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 2009 or 2010.

(iii) 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.

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

16. CONTRIBUTED EQUITY (Cont.)

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 32 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.

17. RESERVES

	2010 \$	2009 \$
Foreign Currency Translation Reserve	(7,149,381)	(6,256,508)
Employee Share Reserve	67,000	66,020
Total Reserves	(7,082,381)	(6,190,488)
Movements :		
Foreign Currency Translation Reserve -		
Balance at beginning of year	(6,256,508)	(5,116,617)
Currency translation differences arising during the year	(892,873)	(1,139,891)
Balance at end of year	(7,149,381)	(6,256,508)
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	66,020	59,085
Movement in Employee Share Reserve	980	6,935
Balance at end of year	67,000	66,020
The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments.		

18. RETAINED PROFITS/(ACCUMULATED LOSSES)

Reconciliation of retained earnings/(Accumulated losses) :		
Balance at beginning of year	795,398	7,978,111
Net profit/(loss) for the year	2,359,974	(7,182,713)
Dividends paid	-	-
Balance at end of year	3,155,372	795,398

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

19. DIVIDENDS

No dividends have been paid or declared in respect of the 2010 or 2009 financial year.

	2010	2009
	\$	\$
Dividend Franking Account		
Franking credits available to shareholders of the Company for subsequent financial years based on a tax rate of 30%.	1,351,929	1,341,808

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

There were no options that were issued or exercised during the financial years relating to this report. There are no options on issue by the Company as at the date of this report or any time during the period covered under this report.

21. COMMITMENTS

	2010 \$	2009 \$
Cancellable operating leases contracted for but not recognised in the financial statements are:		
Less than one year	-	10,854
Longer than one year, but less than 5 years	-	-
	-	10,854

The Company has no commitments in relation to the rental of its current office premises. The current lease expired in July 2010 and is currently on a monthly basis.

In addition the Group is committed to its research and development programme with James Cook University. The total committed research funds for the research project is \$50,000 per annum for three years, paid in two 6 monthly instalments of \$25,000. This expired in 2010.

Less than one year	-	50,000
Longer than one year, but less than 5 years	-	-
	-	50,000

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.

22. CONTINGENCIES

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

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

At the date of this report, there is uncertainty as to the outcome of this assessment and this will not be able to be confirmed until the matter is dealt with by the Indonesian and Australian tax authorities. The 2007 tax assessment by the ITA has been recorded as a tax expense in 2009 but in the event that this assessment is overturned or there is relief provided by the ATO to Atlas South Sea Pearl Ltd in Australia, this tax expense could be reversed in the current or future financial periods.

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 17th April 2007 and 10th 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 2010 with debt of \$412,198 outstanding to 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. The shares are included within contributed equity in the consolidated financial report.

The fair value of shares issued under the scheme is measured at the market price at which the company's shares are traded on the Australian Stock Exchange on the grant date. The fair value is recognised in the balance sheet as an issue of shares at issue price in equity and the fair value portion as reserves. A corresponding amount for the fair value is shown as part of employee costs in the period in which the shares vest.

The fair value of the shares is considered to be the difference between the market price on the date of grant and the employees purchase price of the shares.

There have been no shares issued under the plan in 2009 or 2010.

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 1.14.

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.

	2010 Number	2009 Number
Number of shares on issue under the employee share plan	1,900,000	2,425,000
	1,900,000	2,425,000

During 2008 and 2009 S Cavanagh and J Jorgensen who were issued shares under the plan resigned from the company and a total of 525,000 shares with an issue price of \$ 174,250 were reallocated in 2010.

23. SHARE BASED PAYMENTS (Cont.)

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:

	2010	2009
	\$	\$
Shares issued under the employee share plan	980	6,936
	980	6,936

At the Annual General Meeting of Atlas South Sea Pearl Limited on 18 May 2009, shareholders approved the issue of shares to R Wright. R Wright was issued \$50,000 of his first years remuneration in the form of ordinary shares in Atlas in lieu of this amount being paid in cash. These shares will be issued at a price of \$0.08 per share and will be placed in escrow for one year. The total number of shares allocated was 625,000. A further 250,000 shares were issued under the same terms and conditions to a senior manager who does not meet the definition of key management personnel. The total amount of \$70,000 has been expensed in the Statement of Comprehensive Income during the 2009 year.

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 balance sheet as follows:-

	2010	2009
	\$	\$
Cash at bank (Note 6)	998,335	2,508,711
Balances per statement of cashflows	998,335	2,508,711

24. NOTES TO THE CASH FLOW STATEMENT (Cont.)

24.2 Reconciliation of profit/(loss) after income tax to net cash inflow from operating activities

	2010 \$	2009 \$
Profit/(loss) after income tax	2,359,974	(7,182,713)
Inventories	(1,385,921)	193,781
Increase/(decrease) in interest accrual	3,945	(2,422)
Non cash changes in debtors, prepayments and creditors	572,313	1,225,724
Provision for depreciation	433,417	453,378
Provision for impairment	289,962	1,054,362
Provision for employee entitlements	243,077	(68,506)
Share Based Remuneration	980	76,935
Amortisation of employee loans	(15,632)	16,131
(Profit)/loss on disposal of fixed assets	-	-
(Increase)/decrease in value of financial assets	(227,585)	(2,968,568)
(Increase)/decrease in fair value of biological assets	(2,718,864)	6,678,709
Increase/(decrease) in taxes payable	(289,746)	(932,031)
Net cash provided by/(used in) operating activities	(734,080)	(1,455,220)

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

Property, plant and equipment was acquired through a bank facility totalling \$21,255 in 2010.

During the 2009 year an amount of \$60,012 was converted from debt to equity in the subsidiary company PT Cendana Indopearls.

24.3 Credit facilities

As at 31 December 2010, 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 32 for further disclosure. Information about the security relating to secured liabilities and the fair value is provided in note 32.

25. KEY MANAGEMENT PERSONNEL DISCLOSURE

(a) Key management personnel compensation -

	2010	2009
	\$	\$
Short-term employment benefits	929,398	745,526
Post-employment benefits	66,479	43,233
Long-term benefits	3,072	7,040
Share-based payments	932	55,982
	999,881	851,781

Detailed remuneration disclosures are provided in section 5.2 of the remuneration report on pages 13 to 19.

(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 2010 or 2009.

(ii) Option holdings

There were no options on issue to key management personnel during 2010 or 2009.

(c) Loans to key management personnel

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

(i) Aggregates for key management personnel

Group	Balance at the start of the year	Loans provided during the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	No in Group at the
	\$	\$	\$	\$	\$	
2010	375,000	-	-	23,813	375,000	2
2009	375,000	-	-	19,688	375,000	2

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

2010 Name	Balance at the start of the year	Loans provided during the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Highest indebted-ness during the year
	\$	\$	\$	\$	\$	\$
J. Taylor	263,000	-	-	16,701	263,000	263,000
S. Adams	112,000	-	-	7,112	112,000	112,000
	375,000	-	-	23,813	375,000	375,000

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

25. KEY MANAGEMENT PERSONNEL DISCLOSURE (Cont.)

2009 Name	Balance at the start of the year	Loans provided during the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Highest indebted-ness during the year
	\$	\$	\$	\$	\$	\$
J. Taylor	263,000	-	-	13,808	263,000	263,000
S. Adams	112,000	-	-	5,880	112,000	112,000
	375,000	-	-	19,688	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.

Impairment of receivables of \$205,000 have been recognised in relation to loans made to key management personnel as noted in Note 7 as part of the provision for impairment on loans to employees and key management personnel.

(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.

	Balance 1/1/10	Granted as compensation	Options Exercised	Other Changes ¹	Balance 31/12/10
Parent Entity Directors					
Mr S.P. Birkbeck	11,523,673	-	-	4,231,382	15,755,055
Mr I.M. Murchison ²	1,499,999	-	-	(1,499,999)	-
Mr J.J.U. Taylor	1,220,000	-	-	-	1,220,000
Mr R.A. Wright ²	625,000	-	-	(625,000)	-
Mr S.C.B. Adams ³	666,666	-	-	-	666,666
Mr G. Newman ³	-	-	-	400,000	400,000
Other key management personnel					
Mr J. Jorgensen	-	-	-	-	-
Mr T. Jones	-	-	-	-	-
	15,535,338	-	-	2,506,383	18,041,721

⁽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

25. KEY MANAGEMENT PERSONNEL DISCLOSURE (Cont.)

	Balance 1/1/09	Granted as compensation	Options Exercised	Other Changes ¹	Balance 31/12/09
Parent Entity Directors					
Mr S.P. Birkbeck	400,000	-	-	11,123,673	11,523,673
Mr I.M. Murchison	750,000	-	-	749,999	1,499,999
Mr G.R.W. Snow ²	13,919,184	-	-	(13,919,184)	-
Mr J.J.U. Taylor	1,220,000	-	-	-	1,220,000
Mr R.A. Wright	-	625,000	-	-	625,000
Other key management personnel					
Mr S.C.B. Adams	500,000	-	-	166,666	666,666
	16,789,184	625,000	-	(1,878,846)	15,535,338

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

⁽²⁾ Director retired or resigned in the financial year

(e) Other transactions

Key management personnel

Payments were made in the year for additional marketing consultancy undertaken to Mr S Birkbeck for \$nil (2009:\$30,539) under normal commercial terms.

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:

	2010 \$	2009 \$
Amounts recognised as expense		
Marketing consultancy	-	30,539
Amounts recognised as liability		
Payables	-	-

26. RELATED PARTY TRANSACTIONS

Subsidiaries

Interests in subsidiaries are set out in note 29.

The Company purchased pearls to the value of \$8,681,941 (2009 - \$3,372,673) from its wholly owned controlled subsidiary PT Cendana Indopearls. These transactions are in the normal course of business.

The Company purchased pearl jewellery to the value of \$39,687 (2009 - \$85,019) 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 2010 or 2009, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

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:

	2010 \$	2009 \$
(a) BDO Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	66,858	70,326
Total remuneration for audit and other assurance services	66,858	70,326
<i>Taxation Services</i>		
Tax compliance services and advise	37,783	21,449
Total remuneration for taxation services	37,783	21,449
Total remuneration of BDO Australia	104,641	91,775
(b) Related practices of BDO Australia		
<i>Audit and other assurance services</i>		
Audit and review of financial reports	33,404	32,147
Total remuneration for audit and other assurance services	33,404	32,147
<i>Taxation Services</i>		
Tax compliance services and advise	1,607	1,947
Total remuneration for taxation services	1,607	1,947
Total remuneration of related practices of BDO Australia	35,011	34,094
Total auditors remuneration	139,652	125,869

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 2010 is as follows:

2010	Wholesale Loose Pearl		Jewellery		All other segments	Total
	Australia	Indonesia	Australia	Indonesia		
	\$	\$	\$	\$	\$	\$
Total segment revenue	8,571,426	7,165,238	29,669	970,233	-	16,736,567
Inter-segment revenue	-	(7,165,238)	-	(39,687)	-	(7,204,925)
Revenue from external customers	8,571,426	-	29,669	930,546	-	9,531,642
Adjusted net operating profit/ (loss) before income tax	(1,976,294)	550,626	12,374	416,213	-	(997,081)
Depreciation and amortisation	6,594	22,895	-	24,360	-	53,849
Totals segment assets	1,968,798	14,444,622	-	2,185,812	-	18,599,233
Total assets includes:						
Additions to non – current assets (other than financial assets or deferred tax)	51,610	572,793	-	106,547	-	730,950
Total segment liabilities	586,747	686,129	-	10,500	-	1,283,377

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$224,087 in relation to the impairment of loose pearl stock.

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 2009 is as follows:

2009	Wholesale Loose Pearl		Jewellery		All other segments	Total
	Australia	Indonesia	Australia	Indonesia		
	\$	\$	\$	\$	\$	\$
Total segment revenue	5,917,532	4,107,459	124,755	674,691	-	10,824,437
Inter-segment revenue	-	(4,107,459)	(78,269)	(6,750)	-	(4,192,478)
Revenue from external customers	5,917,532	-	46,486	667,941	-	6,631,959
Adjusted net operating profit/(loss) before income tax	(921,475)	(355,326)	93,025	(166,028)	-	(1,349,804)
Depreciation and amortisation	3,720	39,863	-	30,701	-	74,284
Totals segment assets	5,518,182	15,344,100	-	1,213,463	-	22,075,745
Total assets includes:						
Additions to non – current assets (other than financial assets or deferred tax)	3,873	289,069	-	4,134	-	297,076
Total segment liabilities	748,321	716,607	-	28,113	-	1,493,041

(b) Other segment information

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

	2010	2009
	\$	\$
Total segment revenue	16,736,567	10,824,437
Intersegment eliminations	(7,204,925)	(4,192,478)
Interest income	38,383	51,741
Other revenues	271,670	224,744
Total revenue from continuing operations (note 2)	9,841,695	6,908,444

Major customers

The Company's previous wholesale pearl agent accounted for 13% of external revenue in 2010 (2009: 61%). A Japanese wholesaler accounted for 37% of external revenue (2009: 11%). These revenues are attributable to the Australian wholesale loose pearl segment.

28. SEGMENT REPORTING (Cont.)

(b) Other segment information (Cont.)

The entity is domiciled in Australia. The result of its revenue from third party customers in Australia is \$928,950 (2009:\$4,166,170) in relation to wholesale loose pearl sales. As noted above the majority of its sales in 2009 were sold through an Australian based loose pearl wholesale agent who sold pearls for the Company to a large number of clients but all receivables were underwritten by the agent. Revenue for wholesale loose pearls from third party customers based in other countries in 2010 was \$6,929,679 (2009: \$1,751,362). 81% of the total loose pearl sales revenue in 2010 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.

- (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:

	2010 \$	2009 \$
Net operating profit /(loss) before tax	(997,081)	(1,349,804)
Intersegment eliminations	1,819,638	130,063
Changes in fair value of biological and agricultural assets	2,718,863	(6,678,710)
Interest revenue/(expense)	(123,588)	(64,328)
Gain on bargain purchase	51,050	-
Impairment expense	(289,962)	(1,054,362)
Foreign exchange gains	1,448,680	4,239,650
Foreign exchange losses	(1,860,519)	(2,196,194)
Other	(11,968)	(538,894)
Profit/(loss) before income tax from continuing operations	2,755,113	(7,512,579)

28. SEGMENT REPORTING (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:

	2010 \$	2009 \$
Segment assets	18,599,233	22,075,745
Intersegment eliminations	270,734	(1,641,634)
Unallocated:		
Other	251	700
Deferred tax assets	1,430,258	1,040,645
Fair value adjustments on biological and agricultural assets	5,998,739	3,279,875
Derivative financial instruments	240,053	12,468
Total assets as per the statement of financial position	26,539,268	24,767,799

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 \$222,368 (2009: \$166,219).
The total located in Indonesia is \$ 8,335,382 (2009:\$8,298,027).

- (iv) 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:

	2010 \$	2009 \$
Segment liabilities	1,283,377	1,493,041
Intersegment eliminations	505,031	463,349
Unallocated:		
Other	3,888	4,800
Current tax liabilities	42,446	668,604
Borrowings	3,596,120	4,271,994
Deferred tax liabilities	1,800,493	1,187,607
Derivative financial instruments	-	-
Total liabilities as per the statement of financial position	7,231,355	8,089,395

Notes to and Forming Part of the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2010

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 1.5

Name of entity	Class of shares	Percentage owned	Percentage owned	Place of incorporation
		2010	2009	
Sharcon Pty Ltd	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

The ultimate parent entity, Atlas South Sea Pearl Limited, is incorporated in Australia.

30. BUSINESS COMBINATION

(a) Summary of acquisition

In July 2010 the subsidiary company PT Cendana Indopearls purchased an existing pearling operation in the area of Flores/Alor. The final purchase price represented the existing stock of seeded and unseeded oysters plus property, plant and equipment. The acquisition will ensure that there is sufficient land and water facilities to enable the implementation of the expansion of production which is under way. Hatchery, farming and seeding activities have already commenced at the Flores and Alor sites.

Details of the purchase consideration and the net assets acquired are as follows:

	\$
Purchase consideration (refer to (b) below):	
Cash paid	576,885
Total purchase consideration	576,885
The assets and liabilities recognised as a result of the acquisition are as follows:	Fair value \$
Plant and equipment	143,666
Biological assets	484,269
Net identifiable assets acquired	627,935

30. BUSINESS COMBINATION (Cont.)

The amount of gain recognised in relation to the business combination of \$51,050 is included within other income as set out in note 2. The Company has reviewed procedures it used in identifying and measuring the assets acquired and the consideration transferred, and the procedures and measures were appropriate. The pearling operation had been operational for over 10 years in the production and selling of pearls, but lacked the technical expertise and management required to value add this core activity through production of quality pearls. The bargain purchase reflects this fact and represents the technical and management expertise Atlas can bring to this operation and improve the production of quality pearls.

There were no acquisitions in the year ending 31 December 2009.

Revenue and profit contribution

The acquired operations contributed revenues of \$nil and net loss of \$136,839 to the group for the period from 1 July 2010 to 31 December 2010. No revenues are attributed to this site for the 2010 financial year as no pearls harvested from this operation have yet been sold. This excludes the fair value adjustment of any oysters existing as at 31 December 2010 in which the Alor site represented a reduction in fair value of \$25,937 in the period 1 July 2010- 31 December 2010.

It is not practical to state what the contribution to profit and revenue for the year would have been if the acquisition had occurred on 1 January 2010. This is due to purchasing the assets of the pearling operation rather than an existing business or subsidiary.

(b) Purchase consideration – cash outflow

	\$
Outflow of cash to acquire operations, net of cash acquired	
Cash consideration	576,885
Less : balances acquired	-
Outflow of cash – investing activities	576,885

Acquisition-related costs

Acquisition related costs of \$8,879 are included in other expenses in profit and loss and in operating cash flows in the statement of cash flows.

31. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2010 \$	2009 \$
Statement of financial position		
Current assets	19,702,348	21,192,811
Total assets	21,024,043	22,278,298
Current liabilities	4,369,646	5,322,393
Total liabilities	4,493,886	5,599,894
Shareholders equity		
Issued capital	23,234,922	22,073,494
Reserves		
Share-based payment reserve	67,000	66,020
Retained earnings	(6,771,765)	(5,461,110)
	16,530,157	16,678,404
Profit / (loss) for the year		
	(1,310,654)	(5,523,890)
Total comprehensive income		
	(1,310,654)	(5,523,890)

(b) Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2010 or 31 December 2009.

32. 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:

	2010 \$	2009 \$
Financial Assets		
Cash and cash equivalents	998,335	2,508,711
Trade and other receivables	945,730	1,077,440
Derivative financial instruments	240,053	12,468
	<u>2,184,118</u>	<u>3,598,619</u>
Financial Liabilities		
Trade and other payables	1,085,071	1,104,699
Borrowings	3,596,120	4,271,994
Derivative financial instruments	-	-
	<u>4,681,191</u>	<u>5,376,693</u>

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 2010

32. FINANCIAL RISK MANAGEMENT (Cont.)

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

	31 December 2010				31 December 2009		
	JPY \$	IDR \$	USD \$	EUR \$	JPY \$	IDR \$	USD \$
Cash and cash equivalents	85,576	168,052	74,390	15,232	191	113,652	107,406
Trade and other receivables	142,637	-	-	-	575,610	23,356	4,512
Trade and other payables	3,508	99,992	297,433	-	-	56,324	32,925
Borrowings	3,465,813	-	-	-	4,187,535	-	-
Forward exchange contracts – buy foreign currency	240,053	-	-	-	12,468	-	-
Forward exchange contracts – sell foreign currency	-	-	-	-	-	-	-

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

	Balance Sheet Amount AUD		Foreign Exchange Rate Risk							
			31 December 2010				31 December 2009			
			-10%		10%		-10%		10%	
			Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	2010	2009								
Financial Assets										
Cash	998,335	2,508,711	18,677	-	(16,573)	-	11,924	-	(9,772)	-
Trade and other receivables	945,730	1,077,440	15,524	-	(13,054)	-	64,669	-	(52,566)	-
Derivatives	240,053	12,468	(447,099)	-	436,866	-	(236,382)	-	199,070	-
Financial Liabilities										
Trade and other payables	1,085,071	1,104,699	(32,134)	-	28,247	-	(7,714)	-	(325)	-
Borrowings	3,596,120	4,271,994	(370,425)	-	327,073	-	(465,282)	-	380,685	-
Derivatives	-	-	-	-	-	-	-	-	-	-
Total Increase/(Decrease)			(815,456)	-	762,559	-	(632,785)	-	517,092	-

32. 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 82, with the exception of key management personnel loans which are held at amortised cost, however the shares are held in trust until full repayment of the loans. For retail customers without credit rating the Group generally retains title over the goods sold until payment is received in full.

The Group is not exposed to credit risk as a result of undertaking most of its trade with a single customer as was the case in previous years.

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	2010 \$	2009 \$
Retail customers – no credit history	27,643	28,164
Wholesale customers – existing customers with no defaults in the past	142,637	601,421
Total trade receivables	170,280	629,585
Derivative financial assets	240,053	-

32. FINANCIAL RISK MANAGEMENT (Cont.)

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.

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	2010 \$	2009 \$
Expiring within one year – Foreign currency loan trade	5,000,000	5,500,000
	5,000,000	5,500,000

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 South Sea Pearl Limited and its related entities. The bank loans are denominated in Japanese Yen with fixed interest rates varying from 4.93% to 5.15% and are repayable within the year. As at reporting date the Company had drawn down \$3,465,813 (2009:\$4,187,535) and had undrawn facilities available of \$1,534,187 (2009: \$1,312,465) This loan can be drawn at anytime and is subject to annual review.

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

- (i) Earnings before interest, tax, depreciation and amortisation (EBITDA) will be at least equal to, a profit of \$800,000 for 2010 and a profit of \$2,020,000 for 2011;
- (ii) Minimum net worth of the borrower (Atlas) will at all times be greater than \$16,000,000; and
- (iii) 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 company also has a loan with St George Finance Limited for the purchase of a motor vehicle within the year. The value of the loan as at 31 December 2010 was \$24,090. The loan is secured over the asset by a first priority mortgage. The carrying value of this asset at reporting date was \$20,883.

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 2010

32. 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 2010					31 December 2009				
	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	Total contractual cash flows	Carrying amount (asset)/ Liabilities
	\$	\$			\$	\$	\$	\$	\$	\$
Non-Derivatives										
Trade payables	1,085,071	-	-	-	1,085,071	1,085,071	1,104,699	-	1,104,699	1,104,699
Borrowings	3,555,291	19,186	4,896	16,728	3,596,101	3,596,101	4,271,994	-	4,271,994	4,271,994
Total non-derivatives	4,640,362	19,186	4,896	16,728	4,681,172	4,681,172	5,376,693	-	5,376,693	5,376,693
Derivatives										
Net settled (Non deliverable forwards)	(74,321)	(54,383)	-	-	(128,705)	(125,613)	-	-	-	-
Gross settled										
-(inflow)	(3,050,000)	(250,000)	-	-	(3,300,000)	(144,440)	(972,102)	(1,258,471)	(2,230,573)	(12,468)
-outflow	2,981,866	251,584	-	-	3,233,450	-	969,638	1,248,958	2,218,596	-
Total Derivatives	(142,455)	(52,799)	-	-	(195,255)	(240,053)	(2,464)	(9,513)	(11,977)	(12,468)

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 2011. However the loan facility with CBA has an annual review which is due in May 2011. Bank bills which expire within the first six months of 2011 will be rolled over into a new loan with a revised maturity date within 6-12 months.

32. FINANCIAL RISK MANAGEMENT (Cont.)

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:

- (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 (as prices) or indirectly (derived from prices) (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 assets and liabilities measured and recognised at fair value at 31 December.

CONSOLIDATED ENTITY – as at 31 December 2010	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Derivatives	-	240,053	-	240,053
Total Assets	-	240,053	-	240,053
CONSOLIDATED ENTITY – as at 31 December 2009				
Assets				
Derivatives	-	12,468	-	12,468
Total Assets	-	12,468	-	12,468

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.

33. 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 2010 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.

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard*	Application Date for Group
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9.	Makes amendments to a number of accounting standards and Interpretations 10 and 12 arising from AASB 9.	1 Jan 13	1 Jan 13
AASB 2009-12	Amendments to Australian Accounting Standards	Various changes made to 16 standards and interpretations.	1 Jan 11	1 Jan 11
AASB 2009-14	Amendments to Australian Interpretation-prepayments of a Minimum Funding Requirement (AASB Interpretation 14).	Requires long term employee benefit obligations by estimating the discount rate by reference to market yields instead of a government bond rate.	1 Jan 11	1 Jan 11
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	Various changes made to 7 standards and interpretations.	1 Jul 10	1 Jan 11
AASB 2010-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project.	Various changes made to 5 standards and interpretations.	1 Jan 11	1 Jan 11
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets.	Additional disclosures required including information about the nature of financial assets involved and the risks associated with them.	1 Jul 11	1 Jan 11
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9.	Makes amendments to a number of accounting standards and Interpretations arising from AASB 9.	1 Jan 13	1 Jan 13
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets.	Makes amendments to the treatment of deferred tax on investment property measured using the fair value model.	1 Jan 12	1 Jan 12
AASB Interpretation 19	Extinguishing Liabilities with Equity Instruments.	Changes the way that entities measure the equity instruments they issue to settle their debt obligations.	1 Jul 10	1 Jan 11
AASB 9	Financial Instruments.	Changes to classification and measurement requirements of financial instruments.	1 Jan 13	1 Jan 13
AASB 124	Related Party Disclosures (2009).	The definition of a related party has been simplified eliminating inconsistencies – affects disclosure only.	1 Jan 11	1 Jan 11

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

34. POST BALANCE DATE EVENTS

Atlas South Sea Pearl Limited are currently undertaking a share placement to sophisticated investors. The Company will issue 6,400,000 fully paid ordinary shares in the capital of the Company at an issue price of \$0.12 each, to raise \$768,000 before costs. The new shares will rank equally with the Company's existing issued shares.

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

35. 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 2010 and of the performance for the year ended on that date; and
 - (ii) comply with Accounting Standards, and the *Corporations Regulations 2001*.
- (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 13 to 19 of the Directors' Report (as part of audited remuneration report) for the year ended 31 December 2010 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

31 March 2011

Independent Auditor's Report



Tel: +8 6382 4600
Fax: +8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ATLAS SOUTH SEA PEARL LTD

We have audited the accompanying financial report of Atlas South Sea Pearl Limited, which comprises the consolidated statement of financial position as at 31 December 2010, 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 company 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 is free from material misstatement, whether due to fraud or error. In Note 1, 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 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 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 South Sea Pearl Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

Independent Auditor's Report



Opinion

In our opinion:

- (a) the financial report of Atlas South Sea Pearl Limited 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 2010 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in the Directors' Report page 13 to 19 for the year ended 31 December 2010. The directors of the company 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 South Sea Pearl Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Director

Perth, Western Australia

Dated this 31st day of March 2011

Shareholder Information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 15 March 2011)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

Shareholder	Ordinary shares	Percentage of Capital Held
Raintree Pearls and Perfumes Pty Ltd *	17,155,581	12.58%
Mr W G & Ms B M Martin **	12,800,000	9.38%
Warman (Nominees) Pty Ltd	8,453,552	6.20%

* Includes shares held by SP & K Birkbeck Holdings Pty Ltd

** Includes shares held by Jingie Investments Pty Ltd

Voting rights

Ordinary shares

Refer to note 16

Distribution of shareholders – Ordinary Shares

Category	Number of holders
1 - 1,000	125
1,001 – 5,000	557
5,001 – 10,000	425
10,001 – 100,000	965
100,001 and over	170
	2,242
Number holdings less than a marketable parcel	568

Shareholder Information

Twenty largest shareholders

	Number of ordinary shares held	Percentage of capital held
Raintree Pearls and Perfumes Pty Ltd	10,000,000	7.33
Mr W G & Ms B M Martin	10,000,000	7.33
Warman (Nominees) Pty Ltd	8,453,552	6.20
SP & K Birkbeck Holdings Pty Ltd	7,155,581	5.25
Farjoy Pty Ltd	4,470,000	3.28
Mr C and Mrs B Carr	3,000,000	2.20
Dorran Pty Ltd	3,000,000	2.20
Jingie Investments Pty Ltd	2,800,000	2.05
Sharcon Pty Ltd	2,425,000	1.78
Capital Property Finance Pty Ltd	1,866,464	1.37
Forbar Custodians Limited	1,571,826	1.15
Arrow Pearl Co Pty Ltd	1,508,089	1.11
Five Talents Limited	1,418,879	1.04
Tenalga Pty Ltd	1,366,666	1.00
Nejeka Pty Limited	1,196,888	0.88
Citicorp Nominees Pty Ltd	1,141,962	0.84
Mr T J Martin and Mr W G Martin	1,000,000	0.73
JR & TC Stuart	1,000,000	0.73
Mr P F Murray	942,275	0.69
S.A.R Hoogenberg	866,666	0.64
	65,183,848	47.80

Total number of shares on issue

136,358,097 (as at 15th March 2011)

Included in the shares on issue are 1,900,000 shares which are held in trust under the Employee Share Plan .The debt owed by the employees to the company for the purchase of these shares must be repaid in full before ownership of the shares can be transferred to the employees.

Other information

Atlas South Sea Pearl Limited, incorporated and domiciled in Australia, is a publicly listed company on the Australian Stock Exchange. The company's home exchange in Australia is Perth.

There is currently no on-market buyback of the Company's shares in place.

Company Secretary

Mrs Cecilia Anna Tyndall

Shareholder Information

Registered Office

43 York Street

Subiaco

Western Australia 6008

Telephone: +61 8 9380 9444

Facsimile: +61 8 9380 9970

Share Registry

Computershare

Level 2, 45 St George's Terrace

Perth

Western Australia 6000

Telephone: +61 8 9323 2000 or 1300 557 010 (from within Australia)

Facsimile: +61 8 9323 2033

For personal use only



For personal use only



43 York Street, Subiaco WA 6008 Australia

T +61 8 9380 9444 F +61 8 9380 9970

E atlas@atlassouthseapearl.com.au

www.atlassouthseapearl.com.au