


ATLAS
SEASIDE PEARL
ATLAS SOUTH SEA PEARL LIMITED

A.B.N. 32 009 220 053

ANNUAL REPORT 2011

CORPORATE DIRECTORY

DIRECTORS

Stephen Paul BIRKBECK

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

Geoff NEWMAN

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

COMPANY SECRETARY

Simon Charles Bunbury ADAMS

B.Bus, M.Acc, A.C.I.S.

REGISTERED OFFICE

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AUDITORS

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

TAX ADVISERS

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

BANKERS

 Commonwealth Bank of Australia
150 St Georges Terrace
Perth
Western Australia 6000

SHARE REGISTRY

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

HOME EXCHANGE

 Australian Securities Exchange Limited
Exchange Plaza
2 The Esplanade
Perth
Western Australia 6000

ASX Trading Code: ATP

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES CHAIRMAN'S REPORT

Dear Shareholder

The Board is pleased to announce that its gross revenue has increased by 79% from \$6.908m in FY09 to \$12.360m in FY11. Normalised earnings before interest, tax, depreciation and amortisation has increased by 65% from \$0.943m in FY10 compared to \$1.555m in FY11. These revenue and profit achievements are supported by an increase in net tangible assets (NTA) that as at 31 December 2011 exceeded 14 cents per share with net assets of \$20.284m (2010 - \$19.018m).

Summary of Results

	FY11 \$'000	FY10 \$'000	FY09 \$'000
Revenue from continuing operation	12,350	9,842	6,908
Normalised earnings before interest, tax, depreciation and amortisation (Normalised EBITDA)	1,565	943	(1,159)
EBITDA margin	12.6%	9.6%	N/A
Depreciation & amortisation	(121)	(54)	(74)
Foreign exchange gains/(losses)	(919)	(412)	2,043
Revaluation of Agriculture Assets (oysters and pearls)	962	2,719	(7,272)
Other non-operating costs	(115)	(202)	(954)
Earnings before interest and tax (EBIT)	1,362	2,994	(7,416)
EBIT margin	10.9%	30.4%	N/A
Finance/interest net costs	(264)	(192)	(96)
Income tax gain/(expense)	(504)	(415)	330
Net profit after tax (NPAT)	594	2,387	(7,182)
Basic earnings per share (cents)	0.43	1.91	(6.25)
Assets	30,831	26,249	24,400
Debt (Current & Non-current)	5,720	3,596	4,272
Shareholder funds	20,284	19,018	16,310
Debt/shareholder funds (%)	28%	19%	26%
Number of shares on issue (million)	142,858	136,358	125,483

Although improvements have been achieved in terms of gross revenue, normalised EBITDA and net tangible assets, the FY11 result was overshadowed by the sales and marketing outlook in the global luxury industry and the vulnerability of Atlas due to a lack of capital reserves. As a result of poor reserves, the company was forced to sell pearls into the market in late December and early January 2012 at substantial discounts.

The liquidity concerns and weakened outlook for 2012 were announced to the marketplace in late December and the Board signalled it would need to raise capital by way of a rights issue.

Capital structure

A successful capital raising undertaken through a rights issue was completed in March 2012. 91% of the shares on offer were taken up by shareholders at the close of the offer raising \$3.82m and the balance of the shares offered have been committed with-out the need of an underwriter or a requirement to attract investment from external interests. This has put the company into a significantly stronger financial position when considered in combination with the ongoing support of the Commonwealth Bank.

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The capital reserves will allow the company to hold higher levels of pearls and withstand seasonal fluctuations in demand thereby reducing the risk of having to sell down stock at substantial discounts. Market conditions have gone against the company in recent years but this has created opportunity with Atlas becoming more efficient in both marketing and production context to ensure it builds barriers to entry against competitors. Atlas is well placed to capitalise on future market improvements as the global economy stabilises.

Industry outlook and overview

Pearling over the course of 2009-2012 has encountered unique challenges. Prices are significantly lower than prior to the global crisis of 2008 and producers of South Sea pearls that are unable to establish a strong marketing presence combined with cost effective, high quality production, have been removed from the supply chain. Sustained price pressure could see more pearl farming ventures close or scale back operations and it will further define the characteristics of those that survive. As the following overview demonstrates, Atlas has not only been able to survive through this period, it has traded profitably and expanded its competitive advantages over the 10-15 mm South Sea pearl global market.

Management Restructure

A management restructure in January 2012 resulted in a change of the guard and I was appointed CEO and Stephen Gleeson joined me as CFO in February. In our first eight weeks we have worked with the Chief Operating Officer of Indonesia and our Board to achieve a substantial reduction in the operating costs of Atlas; this has been partially achieved through further rationalisations of shipping between the Atlas pearl farms and efficiencies of scale that are now being felt from the commissioning of new pearl farms acquired in 2010.

My first action as the CEO was to conduct a thorough review of the production and marketing strategies. I believe the Atlas core business is sound and has clear competitive advantages. To have made a positive return in the market despite the depressed prices of 2010 and 2011 bodes well for this counter cyclical investment.

Cost Savings

Atlas has been working to achieve a doubling of its production and acquired a series of new farms through the Nusa Tenggara Timur chain of islands in 2010 and is midway through the CAPEX upgrade of these sites. Construction of a third hatchery due to open in the last quarter of 2012 will deliver further efficiency and quality benefits starting in 2013. As at 2012 Atlas has grown its production base and has a record number of oyster stocks. Atlas has one of the most competitive costs of production in the world. Atlas seeded over 619,000 oysters in 2011, a record for the company.

The economies of this scale of production combined with a January logistics review of the new farms has seen immediate and substantial cost savings due to a reduction in ocean transits which subsequently reduces our carbon footprint.

Quality improvement through superior oyster selection

An immediate priority has been made to consolidate the group's global competitive advantage on the production of first harvest pearls. Atlas has the systems to provide management with the tools to become even more selective on the selection of superior juveniles and oysters at key points in the lifecycle of its livestock. The outcome of this will be higher value pearls from fewer oysters. An important consequence of this approach will be a reduction in current and future production costs and capital expansion costs.

Global Competitive Advantage

Justification of low costs and high quality production.

By increasing its high quality proportion, ensuring that the pearls it produces are of a larger size and improving the overall shape profile, Atlas has a global competitive advantage in the production of high quality South Sea pearls of a 10-15 mm size.

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Wholesale Sales

Of critical importance is the need to fast-track a range of existing sales, marketing, product development and branding positions built during 2010-2011. Demand in the wholesale market for Atlas jewellery is building with our first major sales to the Australian Showcase jewellery chain in March 2012 resulting in a new division of sales. With product roll out scheduled for April-June 2012 other global chains and brands are also on the near horizon; this will add greater competitive tension for Atlas products and reduce reliance on traditional markets.

Retail Sales

In 2010 retail sales exceeded \$1m for the first time, in 2011 revenues lifted to \$1.4m and in 2012, this figure is expected to grow by a further 50%. Retail sales for Bali and Perth retail were \$312k as at the end of February 2012 as compared to \$217k for the same period in 2011. Perth is still underperforming and the full synergies of the corporate promotions, functions, destination tourism and job sharing to reduce staff overheads have not been realised. Staff roles and KPI's will be reviewed in due course to rectify these inefficiencies.

Atlas South Sea Pearl's "Perf'ECO CSR Standards"

Atlas is developing the Pearl ECO (Environmental Custodianship of Oceans) vision as worlds best practice. The strategy is successfully gaining traction with our workforce and communities and a by-product of the CSR program is that we are seeing new sales and customers with brands willing to pay a premium to share this story and ensure that farming practices are ethical and environmentally sustainable.

Proprietary Extraction Technology

Atlas acquired proprietary extraction technology developed over the last five years for isolation of proteins and fragrances from the pearl nacre. This has been used to successfully open up the French export market for pearl powders and extracts with 5,000 kg's of pearl nacre exported to France in 2011. Technology from pharmaceutical groups in France is being utilised to extract key protein markers from pearl nacre and re-inject these compounds alongside selective marine extracts to establish anti-aging and regenerative qualities alongside provenance credentials that are being presented to global brands as a new and innovative product concept.

As well as new active signature molecules for pearls, the research has identified a wide range of nutraceutical, cosmeceutical, cosmetic, fragrance and therapeutic products from pearl nacre. With product roll out now being phased in, it is anticipated that this R & D project will be cash positive for Atlas in 2012.

Key Developments and collaboration points;

Alban Muller / Paris	Extraction of proteins
SCM Cosmétique / Paris	Pearl Signature Molecules.
Pharma Futura / Paris	Water plant Emulsion, Pearl friendly perfumes.
Nomad Two Worlds / New York	Powdering and nutraceutical trial encapsulation.
Christopher Dean Australia	Branding, distribution and marketing.
Peter Stransky / Australia	Powder specifications
	Nutraceutical regulatory and public liability
	Nutraceutical marketing plan
	Powdering the nacre.

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Powder Products Proposed For Sale

- Pearl Injection serum for the health and look of pearls and the epidemics.
- Pearl-essence round ingestible capsules (made in Paris)
- Pearl powder pharmaceutical grade
- Pearl protein extracts

Market Position

It is our aim to focus on customers that pay a premium for specific products and services

The focus is on taking additional global market share in the high quality 10-15 mm loose pearl market and through our wholesale division and extraction innovations to create new markets and new customer demand.

Atlas continues to hold a significant global competitive advantage of being a low cost and high quality pearl producer in a sector that has contracted significantly in the last decade. Like all industries that transition through a structural change, the benefits from being positioned well in comparison to competitors can take time to be realised.

With global economic uncertainty in 2008 - 2011 dampening consumer confidence in the short term, farm closures and downsizing and the current sell down of pearl stocks will see the supply of high quality South Sea pearls diminish in the future, while demand for luxury goods will increase in the medium term and global brands will be attracted to higher quality goods with strong provenance credentials.

Conclusion

With 20 years experience in Indonesian waters, Atlas South Sea Pearl Ltd continues to enjoy the support of its cornerstone investors, banker and suppliers. Market conditions have gone against the company in recent years but this has created opportunity with Atlas becoming more efficient in both marketing and production context to ensure it builds barriers to entry to competitors. Atlas is well placed to capitalise on future market improvements as the global economy stabilises.

I take this opportunity to thank our key suppliers, the shareholders, management and staff for their continued commitment towards making this Company a world class successful aquaculture business. Our team is at your disposal to answer any questions that may arise out of this document


Stephen Birkbeck
Chairman

30th March 2012

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES 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 2011.

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 - 51)

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

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

Appointed Chief Executive Officer 16 January 2012

Appointed Director on 15 April 2005

Appointed Chairman of the board on 21 December 2009

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

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

- Nil

JOSEPH JAMES UEL TAYLOR, B.Sc. (Biology), Ph.D. (Age - 45)

NON EXECUTIVE DIRECTOR, (Audit Committee)

Dr Taylor is a marine biologist and aquaculturist whose PhD research specialised in the husbandry of *Pinna 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 - 46) 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 20 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

Resigned 16 January 2012

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

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

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

* Nil

GEORFF NEWMAN, B.Ec (Hons), M.B.A., F.C.P.A., F.A.I.C.D. (Age – 60)
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 Burnings Puigwood 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 of COO 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

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

Directorships of other listed companies held in the last three years

- * Mount Magnet South NL - appointed 31 May 2006, resigned 9 September 2010
- * Neptune Marine Services Limited – appointed 16 October 2008, resigned 30 September 2011

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 Resigned 2 February 2012.

The Company Secretary appointed 2 February 2012 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. Birbeck	01/01/11 - 31/12/11	9	9	2	2
G. Newman	01/01/11 - 31/12/11	9	9	2	2
J.J.U. Taylor	01/01/11 - 31/12/11	9	8	2	2
S.C.B. Adams	01/01/11 - 31/12/11	9	9	-	-

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

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 compelling 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:
 - o organisational performance and the achievement of the Group's strategic goals and objectives
 - o progress of major capital expenditures and other significant corporate projects
 - o monitoring financial performance including approval of the annual and half-year financial reports and liaison with the company's auditors
 - o 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
 - o overseeing the operation of the Group's system for compliance and risk management reporting to shareholders
 - o 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 6 & 7 of this report

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

In accordance with the definitions of an independent director as set out in the ASX Corporate Governance Principles and Recommendations, Mr Newman and Dr Taylor are independent directors. The Board is therefore made up of a majority of directors who are independent. 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 12.4% 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 not held an executive position with the Company within the last two years, he is considered to meet the definition of an independent director. Dr Taylor's knowledge and experience in the peatling 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 peatling 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 nominate 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 Chief Executive Officer 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 nine 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 2011, and the numbers of meetings attended by each director is disclosed on page 7.

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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Through the last financial year, consideration was given as to what skill set may be required in any new appointments to the Board. This included professional and industry experience, especially as the Company has enhanced its presence in the fashion sector through expansion of its jewellery retail activities and its focus on corporate social responsibility issues. Due to financial constraints, the Board was not increased in size during 2011.

The Company has a good record at ensuring that it provides opportunities within the organisation and to outside contractors for employment of women and people with diverse ethnic and religious backgrounds. This has been recognised in Indonesia by representatives of independent NGOs as a good example to set and resulted in the Company receiving a nomination for the United Nations Equator Prize in 2011.

4.4.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

The audit committee is made up of two (2) 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 7.

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

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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 (PMA) 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 Dr Taylor. Mr Birkbeck, in his capacity as managing director 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 2011, the total non-executive directors' fees including retirement benefit contributions were \$145,000.

The following fees have applied:

Base fees for Non Executive Directors - \$40,000 per annum plus superannuation
Additional fees of \$5,000 per annum for the Chairman of the Audit Committee.
Chairman's fee is \$80,000 per annum plus superannuation
In addition the Chairman receives \$35,000 per annum for providing marketing advice to the Company.
The Technical Director receives an additional \$20,000 per annum for advice on pearl production matters.

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.

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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.

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. Plant 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.

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 6 and 7) and those executives that report directly to the Managing Director being:

- | | | | |
|-------------|---|--|--|
| J Jorgensen | - | Chief Operating Officer | |
| T Jones | - | Pearl Marketing and Distribution Manager | |
| J Folden | - | Chief Financial Officer (from 30 May 2011) (Contract finalised 29 February 2012) | |

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 Trietus - Retail Production Manager
C Tyndall - Company Secretary (Resigned 2 February 2012)

6.2 Details of remuneration (Cont.)

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

[illegible]

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
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	Termination benefits	Share Based Payments	Total
		Short term incentive	Non-cash monetary benefit						
Key Management Personnel									
JS Jorgensen	2011	250,000	6,925	26,902	283,427	13,600	-	-	299,927
	2010	180,130	-	22,404	202,534	18,211	-	-	218,745
T Jones	2011	136,000	6,528	6,688	147,123	13,148	-	-	160,271
	2010	91,606	11,069	-	102,685	6,246	-	-	110,940
Other Company and Group Executives									
M Mau	2011	132,300	-	25,249	157,549	-	-	-	157,549
	2010	126,000	-	24,703	150,703	-	-	-	150,703
C Trifile	2011	107,000	22,761	18,558	148,309	-	-	-	148,309
	2010	94,167	-	18,264	112,421	-	-	-	112,421
C Tyndall	2011	6,826	-	-	6,826	-	-	-	6,826
	2010	2,243	-	-	2,243	-	-	-	2,243
J. Polan	2011	105,886	-	8,539	116,525	-	-	-	116,525
	2010	-	-	-	-	-	-	-	-
Note:									
1. Dr J. Taylor and Mr S. Adams are Directors of the Company's Malaysian subsidiary Apical Sdn Bhd.									
2. Mr S. Adams and Mr R. Wright are key management personnel of the Group with the title of Managing Director. Mr R. Wright resigned as Managing Director on 1 September 2010. Mr									
3. 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.									
4. It is the opinion of the Board that the only officers of the Group who meet the definition of Key Management Personnel as set out by the Corporations Act 2001 or the Australian									
Accounting Standards are the Chief Operating Officer and the Pearl Marketing and Distribution Manager.									
5. Denotes one of the 5 highest paid executives of the Group, as required to be disclosed under the Corporations Act 2001.									
6. Denotes one of the 5 highest paid executives of the Company, as required to be disclosed under the Corporations Act 2001.									
7. J. Polan was the Chief Financial Officer. J. Polan commenced employment on 31 May 2011 and resigned 28 February 2012.									

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

8. C. Newman appointed 16 October 2010.
9. J. Jorgensen resigned 15 October 2010.
10. Mr J. Jorgensen is the Managing Director of the Company's Indonesian subsidiary, P.T. Candana Indonesia.
11. Mr T. Jones was appointed Pearl Marketing and Distribution Manager 10 March 2010.
12. Mr C. Trifile is the Pearl Production Manager.
13. Mr C. Tyndall was appointed Company Secretary on 15 November 2010 and resigned 2 February 2012.
14. Mr T. Jones was the only executive to receive a portion of his remuneration linked to performance in 2010. In 2011, S. Adams, T. Jones and J. Jorgensen had their remuneration linked to the performance of the Company based on growth in normalized EBITDA.

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 28 cents each on 30th May when the market price was 31 cents per share.
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.

**ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT**

5.4. Service Agreements

Details of key management personnel contracts are set out below.

5.4.1. Mr Stephen Birkbeck (Executive Chairman - CEO) (Appointed as CEO from 16 January 2012)

- Mr S Birkbeck was appointed as CEO commencing from 16 January 2012.
- Base salary for the 2012 financial year of \$175,000 plus 9% superannuation, reviewed annually.
- This service agreement has yet to be finalised at report date.

5.4.2. Mr Simon Adams (Company Secretary)

- Base salary inclusive of superannuation for the 2011 financial year of \$130,000, reviewed annually.
- Bonus based on achieving various milestones relating to capital raising, tax compliance and retail revenue.
- This service agreement has yet to be finalised at report date.

5.4.3. Mr Jan Jorgensen (Chief Operating Officer)

- Base salary for the 2012 financial year of \$225,000 plus 9% superannuation, reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.
- Bonus based on 1% of increase in EBITDA over next year from base of 2011 financial year.
- This service agreement has yet to be finalised at report date.

5.4.4. Mr Michael Mau (Group Financial Controller)

- Contract with no fixed term subject to termination notice below.
- Base salary for the 2012 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.

5.4.5. Mr Colin Trietius (Retail Production Manager)

- Employed under a fixed term contract which is due to expire on 30 June 2014.
- Base salary for the 2012 financial year of \$107,000, reviewed annually and also subject to various non-financial allowances relating to living in Indonesia.
- Bonus incentive earned as 4% on the growth of revenue from retail jewellery sales in Indonesia from year to year.
- 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.

Notes –
1. The minimum benefit is based on the fact that the vesting criteria for the shares on issue have not yet been met.
2. The maximum value is based on the value that is calculated at the time that the shares were issued.

Name	Date of Issue	No. of Shares Issued	Shares Vested end of 2010	Shares Vested 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%	2008 – 60% 2010 – 90%	Ordinary Shares	\$-	\$-
	30/6/08	1,000,000	100%	0%	2008 – 60% 2009 – 50%	Ordinary Shares	\$-	\$-
Simon Adams	17/4/07	100,000	100%	0%	2008 – 60% 2010 – 80%	Ordinary Shares	\$-	\$-
	30/6/08	400,000	100%	0%	2008 – 60% 2009 – 50%	Ordinary Shares	\$-	\$-

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

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

5.4.6. Mr Tim Jones (Pearl Distribution and Marketing Manager)

- Contract valid for a term of 3 years expiring in March 2013 subject to termination notice below and extension to contract beyond the initial term subject to approval by both parties.
- Base salary for the 2012 financial year of \$121,500 and 9% superannuation reviewed annually.
- Bonus based on 1% of increase in EBITDA over next year from base of 2011.
- Use of a fully maintained Company vehicle.
- 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.

5.4.7. 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.

5.5.3. Remuneration consultants

The Company has not used any remuneration consultants in the last financial year.

5.5.4. Voting and comments made at the company's 2011 Annual General Meeting

The remuneration report was unanimously voted in favour at the 2011 AGM. The Company did not receive any specific feedback throughout the year on its remuneration practices.

6. PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS

6.1. Principal Activities

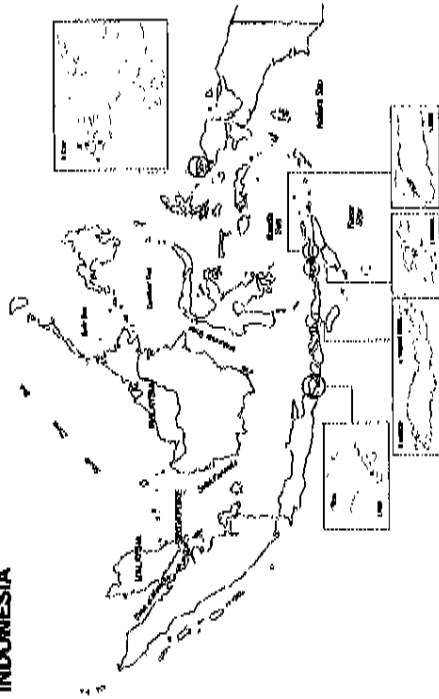
The principal activity of the Company is the business of pearl production in Indonesia and distribution globally through the Company's marketing operations in Australia. The Company also manufactures and sells pearl jewellery primarily in Bali, Indonesia and this constitutes approximately 10% of its 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
- Ensure our activities in Indonesia and elsewhere are conducted in accordance with the company's CSR ideals.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

INDONESIA



Location of pearl farms in Indonesia

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

6.2.1. Year in Review

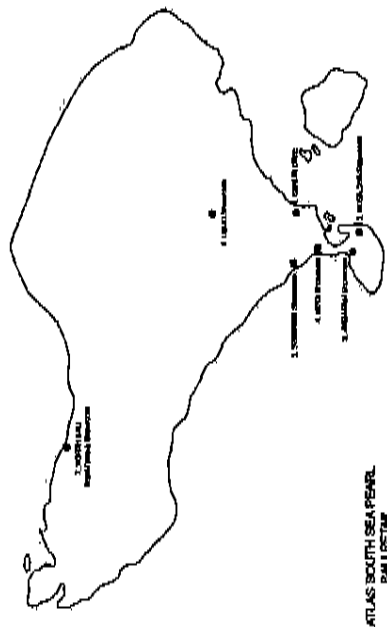
2011 has been a year of mixed fortunes. Improvements in the pearling market in the first three quarters were eroded in part in the last quarter as the effects of the ongoing global financial pressures continued and the Eurozone crisis created uncertainty in the pearling markets. Despite this, revenue and Normalized EBITDA improved compared to the prior year and significant operational targets were met.

Investment in infrastructure and human capital resources has resulted in a solid oyster inventory platform that will improve future pearl volumes. The refraction in pearl demand in Q4 2011 has again emphasised that quality rather than quantity is the best way to maintain viability.

The development of in-house grading and merchandising facilities for the Company's loose pearls has resulted in a more efficient distribution system. By the end of 2011, the Company had moved to its new headquarters in Perth which have provided significantly improved storage, grading and presentation facilities for larger volumes of pearls.

Pearl jewellery retail sales expanded in terms of turnover and the number of stores. In Bali there are now six retail outlets and in October 2011, the Company opened its first retail outlet in Perth under the brand name Pearl'eco.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
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ATLAS SOUTH SEA PEARL
BALI RETAIL

Location of retail outlets in Bali

6.2.2. Shareholder Returns

	2011 \$'000	2010 \$'000	2009 \$'000
Net profit/(loss) after tax	594	2,387	(7,182)
Basic EPS (cents)	0.43	1.91	(6.28)
Dividends paid	Nil	Nil	Nil
Dividends (per share) (cents)	Nil	Nil	Nil

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

	2011 \$'000	2010 \$'000	2009 \$'000
Net profit/(loss) after tax	594	2,387	(7,182)
Tax expense/(benefit)	504	415	(330)
Finance/Interest net costs	264	192	96
Depreciation & amortisation	121	54	74
Foreign Exchange (gain)/loss	919	412	(2,943)
Agriculture Standard revaluation (gain)/loss	(962)	(2,719)	7,272
Other Non-Operating (income)/expense	115	202	954
Normalised EBITDA	1,555	943	(1,159)

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

6.2.3. Financial Position

	2011 \$'000	2010 \$'000	2009 \$'000
Total Assets	30,831	26,593	24,400
Debt (Current & Non-current)	(5,720)	(3,596)	(4,272)
Other Liabilities	(4,828)	(3,833)	(3,817)
Shareholder funds	20,283	19,307	16,310
Debt / Shareholder funds	28%	18%	26%
Number of shares on issue (million)	142,858	136,338	125,483
Net tangible assets per share (cents)	14.4	14.1	13.3
Share price at 31 December (cents)	7.7	11.0	12.5

There has been an increase in the net assets of the group of \$1.265M in the year to 31 December 2011. Movements in the net worth of the economic entity are summarised below:

- Cash reserves have decreased to \$0.410M at the end of 2011 due to poor sales in Q4 and increased capital expenditure on property, plant and equipment purchases of \$2.395M (2010 - \$0.587M). During 2011, \$0.774M of equity was raised through a placement of 6.5 million shares and debt was increased by approximately \$1.8M.
- Current trade receivables (\$76k) remain low. A significant proportion of current receivables are represented by prepayments (\$733k) for insurance, rental and tax.
- Oyster inventory value increased by \$3.67M during 2011. There was an increase in the overall number of oysters from 1.738M to 1.922M. Oyster value was decreased in the accounts as a result of changes in the market price of pearls from \$0.600/moim to \$0.711/moim.
- Stock of pearls in hand has decreased from 135,474 in 2010 (\$4.398M) to 120,867 in 2011 (\$3.213M) as a result of market conditions.
- Jewellery inventory has increased from \$1.563M in 2010 to \$2.5M at the end of 2011 in line with the opening of additional retail outlets and products being offered. Stock turnover remains consistent with industry expectations.
- Property, plant and equipment increased by \$1.79M to \$4.007M at the end of 2011 as a result of extra equipment required for expansion of farming assets in Indonesia as well as an office and retail outlet refit at the Company's head office in Perth.
- Borrowings increased by \$2.12M to \$5.72M in 2011 due to funding of operating and capital requirements associated with expansion of farming operations in Indonesia and upgrading of head office and flagship retail outlet in Australia.
- Deferred tax liability has increased by \$0.415M in 2011 mainly due to the increase in the Agriculture Asset values for the group.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

6.2.4. Operating Results

Atlas has recorded a net profit after tax for the year ended 31 December 2011 of \$583,935 (2010 - \$2,387,615).

The operating revenue increased by 25% to \$12,350,171 in 2011 from \$9,841,695 in 2010, of which pearl sales revenue represented an increase of \$1,945M and retail sales revenue represented an increase of \$2,348M. The number of pearls sold in 2011 was 13% less than the previous year but revenue was higher due to the improved average selling price in 2011 (\$59/pearl). The average high grade (also referred to as sellable grade) pearl price, which is a measure of the quality pearls produced, increased by 17% in 2011 from the prior year.

Revenue from the sale of jewellery was \$1,308,356 in 2011 (2010 - \$960,098). The number of jewellery retail outlets in Bali increased to six (6) in 2011 (2010 - 5 outlets). In October 2011, the Company opened a flagship store in Perth which also accommodates the head office and wholesale pearl business.

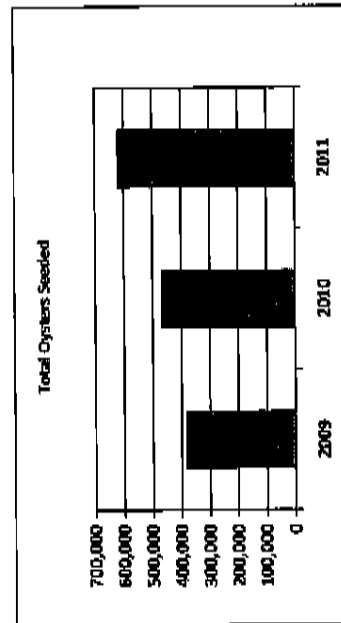
Gross profit margins in 2011 improved from the prior year. The average improvement in the quality of pearls resulted in better margins. Sales discounting on retail sales was required to remain competitive in the Bali tourist trade but there was a focus on service, provenance and quality to ensure that we maintained a point of difference.

A 33% increase in operating costs resulted from higher marketing costs, increased labour costs and higher support services required for the expanding production base of the business.

6.2.5. Pearl Oyster Production Results

The 2010/11 breeding season resulted in high numbers of spat from the North Bali hatchery. The Alor hatchery production in Nusa Tenggara Timur was lower, partly as a result of continued refurbishments taking place during the season. Poor weather conditions in the early part of 2011 affected survival rates through to the juvenile growth stage but overall numbers remained strong. Following the improvements at Alor, results for both hatcheries at the commencement of the 2011/12 hatchery season have been excellent. Spat production and performance selection will be further enhanced with the introduction of a third hatchery in 2012.

The company seeded a record number of oysters in 2011. There were 619,000 oysters operated in 2011 compared to 466,000 in 2010.



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Oysters were seeded at both North Bali and Alor in 2011. Harvesting and the reoperation of harvested oysters were undertaken at the Alyui Bay farm site.

6.2.6. Bali Project

The N. Bali hatchery at Gorokgak continues to produce strong results and very good settlement of spat in the 2010/11 season. A new growout site was secured during the year adjacent to the existing leases. Longline and panel infrastructure has been put in place to accommodate juvenile oysters from the 2011/12 hatchery season.

The N. Bali facilities continued to be the focus of first operation seeding. Operations are closely supervised to ensure consistency of quality. Training new technicians continues and regular workshops are conducted for our experienced technicians. Oysters that are growing pearls are shipped to the pearl growing sites at Alyui Bay (Papua), Punggu Island (Flores) and Alor where pearl growth is faster.

6.2.7. Alyui Bay Pearling Centre

Alyui Bay at the west end of Waigio Island in Papua Province continues to be an important pearl growing site. The Alyui Bay site reduced its staffing, logistics support and overall costs as a result of redesigning its functions to specialise in pearl production. The quality of second harvest pearls has improved. This reseeded program has contributed to the increase in the average pearl size over the last few years.

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 a number of separate sites at Alor (near the town of Kalabala), Lembata (on the Solor island group) and Tanjung Bungga (near the town of Larantuka). These sites perform the full range of functions from hatchery production (Alor), juvenile growout (Lembata), seeding and pearl growing (Alor). The Company has undertaken considerable infrastructure upgrades and reorganisation of farms. The quality of oyster stock has improved substantially as a result of Atlas's breeding program.

A new site on the island of Punggu at the west end of Flores was established as a dedicated site for pearl growing. The simplicity of function and infrastructure combined with good transport to our main operations in Bali make Punggu an extremely cost effective site. A test harvest of pearls indicated quality in line with that produced at Atlas's premier site, Alyui Bay.

6.2.9. Environment

Atlas aims to be the global leader in Eco pearling. Atlas is 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 as 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 anchor buoys so that tourist boats, which frequent the protected and biologically important areas of Raja Ampat have no need to use anchors that can damage the delicate reef systems. 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 many 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 Atmospheric Administration), World Conservation Society, Wetland Family Foundation, as well as conservation minded celebrities and donors to various conservation organisations.

The Company supports numerous recycling and environmental protection initiatives including tree planting in N. Bali, Nusa Tenggara Timur and Raja Ampat. It is critical that the Company supports and protects its local environment to ensure its long term success. Involvement of

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

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 of our successful engagement in Indonesia. We continue to assist local communities with the provision of medical support and transportation where this is not available from the local government. Local communities take advantage of surplus capacity that the company has 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. In particular, Atlas continues to support long term school and tertiary education scholarships for local children and youths.

The Company also supports various cottage industries in local villages. This economic support for local citizens, primarily widows and retirees without a reasonable pension, is well received and applauded 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 Mjuli 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 with a prolonged period of government stability in Indonesia that has evolved into a truly democratic state. Indonesia has experienced strong economic growth in the last 2 years improving the standard of living throughout the nation. Government bureaucracy continues to be an issue in Indonesia but consistent and proactive treatment of these challenges has been successful in achieving results.

Maintaining strong relations with local communities and regional government authorities has been one of the key reasons for the long-term success of the business. Providing reasonable assistance but also ensuring that the Company is not taken advantage of is a challenging balance and Atlas's success in doing so has led to relationship stability with the local stakeholders.

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 in 2010 and 2011. Management continues to focus on ensuring that talented people are retained 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:

	2011	2010	2009
Expatriates - Indonesia	18	15	12
Indonesian nationals - permanent	571	338	335
Indonesian nationals - part time	256	126	125
Australia	10	5	4

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

6.2.13. Marketing

Atlas successfully established its own grading and marketing department for loose pearls in 2010. Atlas has a diverse international client base with large and small wholesalers. The improvement in grading and product merchandising has helped to achieve better average pearl sale prices in 2011. The market for loose pearls improved in the first three quarters of 2011 with more confidence evident amongst wholesale traders. The negative sentiment created by the Eurozone economic issues in Q4 2011 created some uncertainty in the loose pearl market with traders not buying their normal volume of goods. Atlas's regular harvesting and consistent high quality pearl has made it a supplier of choice.

Record tourist numbers helped generate excellent performance in the Bali retail operations. A new store was opened in the tourist area of Jimbaran Bay. 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 were used effectively to generate business. In October 2011, the Company's first retail store in Australia was opened in Perth. This is in a prime retail location of Claremont and co-exists with the Company's head office and wholesale distribution business.

Atlas has continued with its developmental work to value add to its by-products including mother of pearl (MOP) and oyster meat through the trial of various extraction processes. The initial research is very promising and a number of end products within the cosmetics and perfume category have been identified for commercialisation. 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 selective breeding events. This research has provided significant benefit through better and more rapid pearl growth that lower costs of production. Tagging and genetic marker identification is ensuring that the 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

2011 was a year of significant achievement for Atlas in terms of laying the foundation for its expansion in the future. In a difficult economic environment, the Company has been able to yield a profit and continue its 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 is addressing to achieve its objectives. 2011 saw the implementation of this process with strong operational results from the hatchery breeding program, a record quantity of oysters seeded, strong sales and market development and a focus on strategic investment while maintaining costs. This will continue in 2012 with new management in place to see this process through.

7. DIVIDENDS

No dividends were declared and paid by the Company during the financial year ended 31 December 2010 and 2011.

8. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Atlas South Sea Pearl Limited undertook a Rights Issue which closed on 16th March 2012. The Company has issued 76,347,420 shares at a price of five (5) cents per share and raised \$3,817,371

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

before costs. The new shares will rank equally with the Company's existing issued shares. Subsequent to the close of the Rights Issue, a further 2,000,000 ordinary shares have been issued at a price of five (5) cents per share from the shortfall of the Rights Issue.

Subsequent to the year end, Simon Adams has resigned from the position of Managing Director and has been replaced by Mr Stephen Birbeck in the capacity of Executive Chairman. Mrs Cecilia Tyndall has resigned as Company Secretary and has been replaced by Mr Simon Adams. Mr John Polan resigned as Chief Financial Officer and has been replaced by Mr Stephen Gleeson.

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 an ambitious seeding program in Indonesia during 2012. With a third hatchery coming on-line, Atlas will use the opportunity to increase the selectivity of oysters reared on the farms. A more rigorous selection of oysters throughout the growth cycle will improve the yield of high quality. Infrastructure at the farm sites at Alor, East Flores and Punggu are ready to absorb commercial oyster numbers.

Training programs and quality maintenance workshops are a key point in the standard operating procedures for Atlas. 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 marketing division will expand in 2012 with the requirement for additional sales and grading staff to address the increasing volume of pearls and service a growing client base. Atlas is responding to the changing market conditions by increasing the value adding of its pearls and developing non-traditional selling avenues.

Atlas is enhancing its Perleco jewellery brand through a wholesale sale agreement with the Showcase Group who supplies over 360 independent retailers in Australia, New Zealand, Fiji and Vanuatu. This unique South Sea pearl jewellery offering will enhance the Company's place in the jewellery wholesale sector considerably. This model can be expanded to other geographical markets in the future and improve margins for pearl sales.

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. Birbeck	-	27,247,100
J.J.U. Taylor ⁽¹⁾	20,000	1,200,000
S.C.B. Adams ⁽¹⁾	466,666	500,000
G. Newman	-	635,295

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 those shares does not vest to Dr Taylor and Mr Adams until certain employment conditions are met (Refer Note 23).

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
DIRECTORS' REPORT

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 Birbeck, Dr J Taylor, Mr S Adams and Mr G Newman and the following former directors, Mr R P Poornomo, Mr G Snow, Mr R Wright and Mr I Murdochson, 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 \$18,458 (2010 - \$18,436) 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.

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 services 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.

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ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES DIRECTORS' REPORT

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	
	2011	2010
AUDIT SERVICES	\$	\$
BDO Australian Firm:		
Audit and review of financial reports	83,812	66,858
Related practices of BDO Australian Firm	32,260	33,404
Total remuneration for audit services	116,072	100,262

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	26,011	37,783
Related practices of BDO Australian Firm	1,356	1,607
Total remuneration for taxation services	27,367	39,390
Total remuneration for non-audit and taxation services	27,367	39,390

15. AUDITORS' INDEPENDENCE DECLARATION

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

Signed in accordance with a resolution of the Directors


S. Blinkbeck
Chairman
30 March 2012

30 March 2012

The Board of Directors
Atlas South Sea Pearl Limited
Shop 1, 47-49 Bay View Terrace
CLAREMONT WA 6910

Dear Sirs,

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 2011, 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 period.



Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, Western Australia

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ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010 (Restated)
		\$	\$
Revenue from continuing operations	2	12,350,171	9,841,595
Cost of goods sold		(5,665,016)	(5,138,833)
Gross profit		6,685,155	4,702,862
Other income	2	3,965,033	4,218,594
Marketing expenses		(840,809)	(622,797)
Administration expenses	3	(4,875,300)	(3,195,395)
Finance costs	3	(264,907)	(191,971)
Research and development		(106,473)	(55,280)
Other expenses	3	(3,454,668)	(2,053,947)
Profit/(Loss) before income tax		1,066,031	2,802,066
Income tax (expense)/benefit	4	(504,095)	(414,901)
Profit/(Loss) for the year from continuing operations		561,936	2,387,165
Other comprehensive income/(expenses)			
Exchange differences on translation of foreign operations		(102,485)	(892,873)
Income tax relating to components of other comprehensive income		-	-
Other comprehensive income/(expenses) for the year, net of tax		(102,485)	(892,873)
Total comprehensive income/(expenses) for the year		459,451	1,494,292
Profit/(loss) is attributable to:			
Owners of the Company		593,936	2,387,165
Total comprehensive income/(expenses) is attributable to:			
Owners of the Company		459,451	1,494,292

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	0.43	1.91
Diluted earnings per share (cents)	5	0.42	1.88

The accompanying notes form part of these financial statements.

	Note	2011	2010 (Restated)	1 January 2010
		\$	\$	\$
Current assets				
Cash and cash equivalents	6	409,871	998,335	2,508,711
Trade and other receivables	7	1,078,409	1,239,095	1,342,729
Derivative financial instruments	8	-	240,053	12,468
Inventories	9	6,231,282	6,375,746	2,675,646
Biological assets	10	6,771,528	5,305,465	8,800,587
Total current assets		14,491,100	14,158,694	15,340,141
Non-current assets				
Inventories	9	284,865	83,415	103,913
Biological assets	10	10,679,488	8,476,047	5,816,128
Property, plant and equipment	11	4,007,400	2,217,156	2,195,780
Deferred tax assets	14(b)	1,388,527	1,313,782	943,931
Total non-current assets		16,340,280	12,060,400	9,059,753
Total assets		30,831,380	26,249,094	24,399,894
Current liabilities				
Trade and other payables	12	2,367,762	1,743,239	1,440,904
Borrowings	13	5,327,089	3,596,120	4,271,994
Derivative financial instruments	8	146,450	-	-
Current tax liabilities	14(a)	74,417	42,446	680,895
Short-term provisions	15	23,399	49,057	468,035
Total current liabilities		7,539,107	5,430,862	6,861,828
Non-current liabilities				
Trade and other payables	12	-	-	24,679
Borrowings	13	393,397	-	-
Deferred tax liabilities	14(a)	2,215,056	1,800,493	1,187,607
Long term provisions	15	-	-	15,281
Total non-current liabilities		2,608,453	1,800,493	1,227,567
Total liabilities		10,547,560	7,231,355	8,089,395
Net assets		20,283,820	19,017,739	16,310,499
Equity				
Contributed equity	16	23,287,552	22,512,922	21,304,245
Reserves	17	(6,670,637)	(6,568,352)	(5,679,750)
Retained profits/(accumulated losses)	18	3,667,105	3,073,169	696,004
Total equity		20,283,820	19,017,739	16,310,499

The accompanying notes form part of these financial statements.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 30th March 2012. 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 2011. The affected policies and standards are:

AASB 2009-12 Amendment to Australian Accounting Standards arising from the Annual Improvements Project

AASB 2009-14 Amendment to Australian Interpretation- prepayments of a Minimum Funding Requirement (AASB Interpretation 14)

AASB 2010-4 Amendment to Australian Accounting Standards arising from the Annual Improvements Project

AASB Interpretation 19: Distinguishing Liabilities with Equity Instruments

AASB 124 – Related Party Disclosures (2009)

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.

Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period. There is not expected to be any material impact on the financial report of the consolidated entity of these Standards and Interpretations. In the case of AASB 9 Financial Instruments as the adoption is only mandatory for the 31 December 2013 year end the entity has not yet made an assessment of the impact of these 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 2011 and the results of its subsidiaries for the year then ended. Atlas South Sea Pearl Ltd and its subsidiaries together are referred to in these financial statements as the consolidated entity.

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

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

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

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

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 substantively 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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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) Nuclea – 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

Freshhold 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	2011	2010
Leasehold land & buildings & improvements	5-10%	5-10%
Vessels	10%	10%
Plant & equipment	10-50%	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.

(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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 hyperinflationary 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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

(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.

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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.

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 of 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.

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

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

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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.

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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 intangible 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.

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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 judgments 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 2011 or 2010.

– *Impairment of pearl inventories*

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. There is no impairment as at 31 December 2011.

– *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.

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Key assumptions that have been used to determine the fair market value of the oysters in 2011 are as follows.

	2011	2010
Average selling price for pearls ¹	¥5,711 per mollusc	¥6,600 per mollusc
¥ exchange rate	¥78.74/AUD1.00	¥82.83/AUD1.00
Average pearl size	0.68 mollusc	0.67 mollusc
Proportion of market grade pearls	51%	70%
Discount rate applied to cash flow	20%	20%
Mortality & Rejection rates	Historical comparison	Historical comparison
Average unseeded oyster value ²	\$2.13	\$1.89

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

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

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2. REVENUE FROM CONTINUING OPERATIONS

	2011 \$	2010 \$
Sales revenue		
Sale of goods	12,186,151	9,654,754
Other revenue		
Interest income	16,753	38,383
Other revenues	147,287	148,558
Revenue	12,350,171	9,841,695

Change in net market value of biological assets

Change in fair value less point of sale costs of oysters	2,825,138	331,297
Gain arising on initial recognition of harvested pearls	-	2,387,567

Other income

Foreign exchange gains	2,825,138	2,718,864
Gain on foreign currency derivatives not qualifying as hedges	907,238	1,160,827
Gain on bargain purchase of pearling operation	222,657	287,853
Other income	-	51,050

Other income

3,955,033	4,218,594
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3. PROFIT/(LOSS) BEFORE INCOME TAX INCLUDES THE FOLLOWING SPECIFIC ITEMS

Administration expenses from ordinary activities	2,134,928	1,656,166
Salaries and wages	121,309	53,849
Depreciation property, plant and equipment	632,692	87,665
Loss on foreign currency derivatives not qualifying as hedges	-	4,271
Share based payment to employees	410,355	192,046
Operating lease rental costs	381,216	478,849
Compliance and finance	1,194,802	722,549
Other	4,875,300	3,195,395

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

	2011	2010
	\$	\$
Other expenses		
Foreign exchange loss	1,415,924	1,772,854
Provision for employee entitlements	31,686	57,006
Change in net market value of biological assets		
Loss arising on initial recognition of harvested pearls	1,862,684	-
Impairment of other assets		
Biological assets (refer note 10)	144,372	-
Pearl inventories (refer note 9)	-	224,087
	<u>3,454,668</u>	<u>2,053,947</u>
Finance costs		
Interest and finance charges payable	264,907	191,971
	<u>264,907</u>	<u>191,971</u>
Net loss/(profit) on foreign currency derivatives not qualifying as hedges	<u>(410,035)</u>	<u>200,188</u>

4. INCOME TAX EXPENSE

a) The components of tax expense/(benefit) comprise:

	2011	2010
	\$	\$
Current tax	164,277	171,886
Deferred tax	339,818	243,035
	<u>504,095</u>	<u>414,901</u>
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 14)	(74,745)	(369,851)
(Decrease)/increase in deferred tax liabilities (note 14)	414,563	512,886
	<u>339,818</u>	<u>243,035</u>

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4. INCOME TAX EXPENSE (Cont.)

	2011	2010
	\$	\$
c) Numerical reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before income tax expense	1,098,031	2,802,056
Tax at the Australian tax rate of 30%		
Tax effect of amounts which are not deductible in calculating taxable income:		
Non deductible expenses	329,409	640,620
Tax losses not brought to account	7,467	(37,377)
Sundry items	57,862	2,717
Permanent Differences (Indonesia)	(5,520)	(5,183)
Previously unrecognised tax losses used to reduce current tax expense	299,452	(368,377)
Difference in overseas tax rates	-	-
Income tax under/(over) provided in prior years	(51,060)	(29,037)
Income tax expense/(benefit)	<u>(133,545)</u>	<u>41,538</u>
	<u>504,095</u>	<u>414,901</u>
Weighted average effective tax rates	45.9%	14.8%

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

d) Deferred income tax at 31 December relates to the following:

	2011	2010
	\$	\$
Deferred tax liabilities		
Accrued interest	432	1,974
Fair value adjustment on biological assets and agricultural produce	(304,051)	(806,373)
Prepayments	-	823
Deferred tax assets		
Difference in accounting and tax depreciation	(3,965)	(39,769)
Accruals	(2,008)	(122,162)
Provisions	49,652	50,185
Unrealised foreign exchange losses	43,736	(1,731)
Unrealised foreign exchange gains	79,411	173,454
Other	(203,065)	501,164
Deferred tax income/(expense)	<u>(339,818)</u>	<u>(243,035)</u>

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

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5. EARNINGS LOSS/PER SHARE

Basic earnings per share (cents per share)
Diluted earnings per share (cents per share)

	2011	2010
	\$	\$
	0.43	1.91
	0.42	1.88

Earnings reconciliation

Net profit/(loss) used for basic earnings
After tax effect of dilutive securities
Diluted earnings/(loss)

	2011	2010
	\$	\$
	593,936	2,387,165
	<u>593,936</u>	<u>2,387,165</u>

Weighted average number of ordinary shares outstanding during the year used for calculation of basic earnings per share
Adjustments for calculation of diluted earnings per share: Employee Share Plan shares
Weighted average number of potential ordinary shares outstanding during the year used for calculation of diluted earnings per share

	139,209,330	124,825,152
	<u>1,900,000</u>	<u>1,900,000</u>
	<u>141,109,330</u>	<u>126,725,152</u>

Diluted earnings per share is calculated after taking into consideration all options and any other securities that were on issue that remain unconverted at 31 December as potential ordinary shares which may have a dilutive effect on the profit of the Consolidated Group

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

6. CASH AND CASH EQUIVALENTS

Cash at bank

	2011	2010
	\$	\$
	409,871	998,335
	<u>409,871</u>	<u>998,335</u>

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.

Cash not available for use

The Group has cash held as a guarantee as part of their obligations under their lease agreement totalling \$101,523 (2010:\$nil).

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7. TRADE & OTHER RECEIVABLES

	2011	2010	1 January 2010
	\$	\$	\$
CURRENT			
Trade receivables	75,902	170,280	629,585
Income tax receivable	-	73,224	198,653
Surplus debtors & prepayments	1,002,507	995,591	514,491
	<u>1,078,409</u>	<u>1,239,095</u>	<u>1,342,729</u>

(a) Impaired trade receivables

There were no impaired trade receivables for the group in 2011 or 2010.

(b) Past due but not impaired

As at 31 December 2011, trade receivables of \$6,625, (2010:\$150,981) 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 record history of default. Given the past history with this customer no impairment has been recognised in the financial period. The trade terms for Pearlfutures 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. The ageing analysis of these trade receivables is as follows:

	2011	2010
	\$	\$
Up to one month	-	-
2-3 months	-	-
3 months and above	6,625	150,981
	<u>6,625</u>	<u>150,981</u>

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

(c) Other receivables

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

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7. TRADE AND OTHER RECEIVABLES (Cont.)

(c) Correction of error

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years and retrospective adjustments recognised on 1 January 2010 and 31 December 2010. The amounts disclosed in this note are after these adjustments.

(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 maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. 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

Forward foreign exchange contracts - assets					
Forward foreign exchange contracts - liabilities					
	2011	2010			
	\$	\$			
	146,450	-		240,053	

(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.

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9. INVENTORIES

CURRENT

Pearls - at fair value	2011	2010
Pearls - impairment	\$	\$
	3,214,124	4,620,753
	-	(224,067)
Other - at cost	3,214,124	4,396,686
	3,017,168	1,979,080
	6,231,292	6,375,746

NON CURRENT

Nudeai - at cost

	264,865	83,413
	6,496,157	6,459,159

TOTAL INVENTORY

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

Carrying amount at beginning of the year	4,620,753	2,355,683
Harvest of new pearls	8,370,336	10,690,346
Deemed cost of pearls sold	(7,914,281)	(10,812,843)
Gain/(Loss) from changes to fair value less estimated point of sale costs	(1,862,684)	2,387,567
Carrying amount at end of the year	3,214,124	4,620,753

Inventories recognised as an expense during the year ended 31 December 2011 amounted to \$30,081 (2010:\$115,355) for the Group. This is included within admin expenses in the Statement of Comprehensive Income.

10. BIOLOGICAL ASSETS

CURRENT

Oysters - at fair value

	2011	2010
	\$	\$
	8,771,528	5,305,465

NON CURRENT

Oysters - at fair value

Oysters - impairment

	2011	2010
	\$	\$
	10,679,488	8,476,047
	-	-
	10,679,488	8,476,047

Total Biological Assets

	2011	2010
	\$	\$
	17,451,016	13,781,512

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10. BIOLOGICAL ASSETS (Cont.)

Atlas reported the loss of 32,000 seeded oysters in a transportation that was made in November 2011. This was the first and only mortality event from transportation of this magnitude that the company has experienced and as such it is not expected to be a material ongoing risk to the company. The cause of this event was not identified but exhaustive tests and subsequent transportation runs have not resulted in a recurrence and so it is believed that this was a one-off event. Management believe that the most likely cause was that an isolated toxic substance or algae bloom was encountered during the trip. In relation to this event an impairment was expensed for the 2011 financial year of \$144,372.

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

Nature:-	Oysters (<i>Pinckada Maxima</i>)	2011 No.	2010 No.
Quantity held within the Group operations:-			
Juvenile and mature oysters which are not seeded		1,066,470	1,261,081
Nucleated oysters		835,046	743,537
		<u>1,921,516</u>	<u>2,004,618</u>

During the year ended 31 December 2011, the Group harvested approximately 296,180 (2010:388,583) pearls. A reconciliation of the movement in the fair market value of the oysters during the year is reflected as follows:

	2011 \$	2010 \$
Oysters		
Carrying amount at beginning of the year	13,781,512	14,616,716
Value of new juvenile oysters recognised into stock	2,476,603	1,875,512
Increase in value of stock from change in pearl oyster development	9,458,010	11,362,695
Decrease in value through mortality	(5,409,132)	(3,028,432)
Decrease in value of Agriculture asset from harvest of pearls	(5,501,719)	(10,690,346)
Gain/(Loss) from changes to fair value less estimated point of sale costs	2,825,138	331,297
Exchange adjustment	(179,397)	(1,170,199)
Acquisition of pearling operation	-	484,269
Carrying amount at end of the year	<u>17,451,016</u>	<u>13,781,512</u>

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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 (Minomine)		
	-10% (Commercial Grade)	No Change \$5,711 (Sellable Grade) \$974 (Commercial Grade)	+10% \$6,282 (Sellable Grade) \$1,071 (Commercial Grade)
22%	Profit \$ (\$2,137,946)	Equity \$ (\$2,137,946)	Profit \$ (\$1,715,713)
20%	Profit \$ (\$1,952,286)	Equity \$ (\$1,952,286)	Profit \$ (\$1,952,286)
18%	Profit \$ (\$1,760,790)	Equity \$ (\$1,760,790)	Profit \$ (\$2,196,307)

FX rate	Selling Price (Minomine)		
	-10% (Commercial Grade)	No Change \$5,711 (Sellable Grade) \$974 (Commercial Grade)	+10% \$6,282 (Sellable Grade) \$1,071 (Commercial Grade)
\$96.61	Profit \$ (\$3,591,048)	Equity \$ (\$3,591,048)	Profit \$ (\$50,645)
\$78.74	Profit \$ (\$1,952,286)	Equity \$ (\$1,952,286)	Profit \$ (\$1,952,286)
\$70.87	Profit \$ \$62,301	Equity \$ \$62,301	Profit \$ \$4,414,560

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.

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11. PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	\$	\$
(a) Non-Pearling Assets		
Plant and equipment		
- at cost	826,166	154,620
- accumulated depreciation	(191,174)	(105,960)
	634,992	48,670
Leasehold improvements		
- at cost	879,462	-
- accumulated depreciation	(146,486)	-
	732,974	-
Total pearling project	1,367,966	48,670

(b) Pearling project
Land (leasehold and freehold) and buildings

- at cost	1,305,666	1,463,012
- accumulated depreciation	(585,893)	(689,162)
	719,775	773,820

Plant and equipment, vessels, vehicles

- at cost	5,392,885	4,643,388
- accumulated depreciation	(3,473,226)	(3,248,722)
	1,919,659	1,394,666

Total pearling project

	2,639,434	2,168,486
Total property, plant and equipment	4,007,400	2,217,156

Included in Pearling project land (leasehold and freehold) and buildings is \$65,566 (2010 - \$151,371) 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) Non-Pearling Assets

Plant and equipment		
Carrying amount at beginning of the year	48,670	3,654
Additions	592,346	51,610
Reclassifications/Disposals	-	-
Foreign exchange movement	66,520	-
Depreciation	(21)	-
	(72,523)	(6,594)
Carrying amount at end of the year	634,992	48,670
Leasehold Improvements		
Carrying amount at beginning of the year	-	-
Additions	666,195	-
Foreign exchange movement	-	-
Reclassifications/Disposals	91,058	-
Depreciation	(24,279)	-
Carrying amount at end of the year	732,974	-

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11. PROPERTY, PLANT AND EQUIPMENT (Cont.)

	2011	2010
	\$	\$
(b) Pearling project		
Leasehold land and buildings		
Carrying amount at beginning of the year	773,820	583,068
Additions	133,797	287,698
Acquisition of pearling operation	-	7,450
Disposals/reclassifications	(145,828)	-
Depreciation	(30,644)	(35,174)
Foreign exchange movement	(11,369)	(69,222)
Carrying amount at end of the year	719,775	773,820

(c) Plant and equipment, vessels, vehicles

Carrying amount at beginning of the year	1,394,666	1,609,058
Additions	866,796	247,976
Acquisition of pearling operation	-	136,216
Disposals / reclassifications	(80,402)	(90,352)
Depreciation	(364,288)	(391,649)
Foreign exchange movement	(27,112)	(116,583)
Carrying amount at end of the year	1,919,659	1,394,666

Total Carrying amount

	4,007,400	2,217,156
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Refer note 32 for information on non-current assets pledged as security by the Group.

12. TRADE AND OTHER PAYABLES

CURRENT		
Trade payables	959,910	525,222
Other payables and accrued expenses	1,407,942	1,218,017
	2,367,752	1,743,239

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

Other payables includes accruals for annual leave of \$804,841 and \$658,168 in the consolidated entity for 2011 and 2010 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.

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12. TRADE AND OTHER PAYABLES (Cont.)

(b) Risk Exposure

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

13. BORROWINGS

	2011	2010
	\$	\$
CURRENT		
Secured		
Bank loan	4,868,227	3,465,814
Other bank loan	83,333	-
Lease liabilities	106,818	24,091
Total secured current borrowings	5,058,378	3,489,905
Unsecured		
Other	268,711	106,215
Total current borrowings	5,327,089	3,596,120
NON-CURRENT		
Secured		
Other bank loan	160,457	-
Lease liabilities	232,900	-
Total secured non current borrowings	393,357	-

(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

	2011	2010	1 January 2010
	\$	\$	\$
(a) Liabilities			
CURRENT			
Income tax payable	74,417	42,446	680,895
NON-CURRENT			
Deferred tax liabilities comprises temporary differences attributable to -			
Agricultural and biological assets at fair value	2,207,710	1,713,304	924,157
Prepayments	52	-	823
Accrued interest income	-	484	2,458
Unrealised foreign exchange gains	7,294	86,705	260,139
Total deferred tax liabilities	2,215,056	1,800,493	1,187,597

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14. TAX (Cont.)

	2011	2010	1 January 2010
	\$	\$	\$
(b) Assets			
Deferred tax assets comprises temporary differences attributable to -			
Tax allowances relating to property, plant & equipment	64,769	68,754	108,523
Agricultural and biological assets at fair value	263,442	73,087	90,923
Accruals	17,340	19,348	141,600
Provisions	282,982	233,330	183,145
Impairment of assets	-	-	156,612
Unrealised foreign exchange losses	45,815	2,079	3,810
Other	8,904	22,371	19,188
Tax losses recognised	683,252	418,968	703,799
Total deferred tax assets	706,275	894,813	240,132
	1,388,527	1,313,782	943,961
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	(486,711)	(243,676)	(2,064,318)
(Charge)/credit to statement of comprehensive income	(339,818)	(243,035)	1,820,642
Other movements	-	-	-
Closing balance	(826,529)	(486,711)	(243,676)

(d) Correction of error

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years and retrospective adjustments recognised on 1 January 2010 and 31 December 2010. The amounts disclosed in this note are after these adjustments.

15. PROVISIONS

CURRENT	
Employee benefits	23,399
Total current provisions	23,399
Number of employees	855
	484

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.

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15. PROVISIONS (Cont.)

Reconciliation of provisions:
Balance at beginning of year
Provision used
Unused provisions reversed
Provisions added
Closing balance

	2011	2010
	\$	\$
	49,057	483,316
	(36,054)	(437,328)
	-	-
	10,436	3,089
	23,359	49,057

16. CONTRIBUTED EQUITY

Issued and fully paid-up capital

	2011	2010	No. of shares	2011	2010
				\$	\$
	140,958,097	134,458,097		23,287,552	22,512,922

Ordinary Shares

Balance at beginning of year	134,458,097	123,058,027	22,512,922	21,304,245
Shares issued (Note 1)	6,500,000	11,400,000	774,630	1,208,877
Balance at end of year	140,958,097	134,458,097	23,287,552	22,512,922

Treasury Shares

Balance at beginning of year	1,900,000	2,425,000		
Shares issued	-	(525,000)		
Balance at end of year	1,900,000	1,900,000		

(1) 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.

(2) 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)

(3) In November 2010 525,000 shares were issued to an employee of the Company through the Atlas South Sea Pearl Executive Share Plan for a total of \$47,250.

(4) In April 2011, a total of 6,500,000 shares were issued to sophisticated investors at an issue price of \$0.12 each. The total amount raised after associated costs was \$774,630. The shares rank equally with the Company's existing issued shares.

(i) Correction of error

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years and retrospective adjustments recognised on 1 January 2010 and 31 December 2010. The amounts disclosed in this note are after these adjustments.

(ii) Rights

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

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16. CONTRIBUTED EQUITY (Cont.)

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

(iii) Share Buyback

The share buy-back has been terminated as at the date of this report and no shares had been bought back during the financial year 2010 or 2011.

(iv) Capital Risk Management

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

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

The Group has no external requirements imposed upon it in relation to capital structure except those noted in note 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.

	2011	2010
	\$	\$
17. RESERVES		
Foreign Currency Translation Reserve	(7,251,866)	(7,149,381)
Employee Share Reserve	581,029	581,029
Total Reserves	(6,670,837)	(6,568,352)

Movements

Foreign Currency Translation Reserve -
Balance at beginning of year
Currency translation differences arising during the year
Balance at end of year

	(7,149,381)	(6,256,508)
	(102,485)	(892,873)
	(7,251,866)	(7,149,381)

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
Movement in Employee Share Reserve
Balance at end of year

	581,029	576,758
	-	4,271
	581,029	581,029

The employee share reserve records the value of equity portion of remuneration paid to employees in the form of shares or other equity instruments.

(i) Correction of error

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years and retrospective adjustments recognised on 1 January 2010 and 31 December 2010. The amounts disclosed in this note are after these adjustments.

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18. RETAINED PROFITS/(ACCUMULATED LOSSES)

	2011	2010
	\$	\$
Reconciliation of retained earnings/(accumulated losses):		
Balance at beginning of year	3,073,169	686,004
Net profit/(loss) for the year	583,936	2,387,165
Dividends paid	-	-
Balance at end of year	<u>3,657,105</u>	<u>3,073,169</u>

(i) Correction of error

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years and retrospective adjustments recognised on 1 January 2010 and 31 December 2010. The amounts disclosed in this note are after these adjustments.

19. DIVIDENDS

No dividends have been paid or declared in respect of the 2011 or 2010 financial year.

Dividend Franking Account

Franking credits available to shareholders of the Company for subsequent financial years based on a tax rate of 30%.

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.

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21. COMMITMENTS

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2011	2010
Within one year	300,635	-
Later than one year, but not later than five years	1,742,202	-
Later than five years	1,114,879	-
	<u>3,157,716</u>	<u>-</u>

Non - cancellable operating leases

The Group leases premises under non-cancellable operating leases expiring in 10 years. On renewal the terms of the leases are renegotiated.

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

22. CONTINGENCIES

The Company's subsidiary, PT Candana Indonesia, 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 \$0.865M. 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.

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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 2011 with debt of \$428,500 outstanding by employees from the initial loan of \$1,063,500 that was made when the shares were allocated to employees. Refer note 25 for details of equity held and loans outstanding to Key Management Personnel.

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

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

There have been no shares issued under the plan in 2010 or 2011.

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.

Number of shares on issue under the
employee share plan

	2011	2010
Number	Number	Number
1,900,000	1,900,000	1,900,000
1,900,000	1,900,000	1,900,000

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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:

	2011	2010
\$	\$	\$
-	-	4,271
-	-	4,271

Shares issued under the employee share
plan

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:-

	2011	2010
\$	\$	\$
409,871	409,871	968,335
409,871	409,871	968,335

Cash at bank (Note 6)

Balances per statement of cashflows

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

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

	2011	2010
	\$	\$
Profit/(loss) after income tax	593,936	2,359,974
Inventories	(3,792,956)	(1,385,921)
Increase/(decrease) in interest	(789)	3,945
Non cash changes in debtors,		
prepayments and creditors	1,770,227	553,390
Provision for depreciation	491,734	433,417
Provision for impairment	144,372	289,962
Provision for employee		
entitlements	121,015	243,077
Share Based Remuneration	-	4,271
(Profit)/loss on disposal of fixed		
assets	-	-
(Increase)/decrease in value of		
financial assets	386,503	(227,585)
(Increase)/decrease in fair value		
of biological assets	(962,454)	(2,719,854)
Increase/(decrease) in taxes		
payable	371,789	(289,746)
Net cash provided by/(used in)		
operating activities	(676,622)	(734,080)

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 \$396,503 (2010: \$21,256).

24.3 Credit facilities

As at 31 December 2011, 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.

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25. KEY MANAGEMENT PERSONNEL DISCLOSURE

a. Key management personnel compensation -

	2011	2010
	\$	\$
Short-term employment benefits	917,498	929,398
Post-employment benefits	78,862	66,479
Long-term benefits	10,436	3,072
Share-based payments	-	3,451
	1,006,796	1,002,400

Detailed remuneration disclosures are provided in section 5.2 of the remuneration report on pages 14 to 20.

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 2011 or 2010.

ii. Option holdings

There were no options on issue to key management personnel during 2011 or 2010.

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 end of the year
	\$	\$	\$	\$	\$	
2011	375,000	-	-	24,207	375,000	2
2010	375,000	-	-	23,813	375,000	2

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

2011	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 indebtedness during the year
Name	\$	\$	\$	\$	\$	\$
J. Taylor	263,000	-	-	17,095	263,000	263,000
S. Adams	112,000	-	-	7,112	112,000	112,000
	375,000	-	-	24,207	375,000	375,000

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25. KEY MANAGEMENT PERSONNEL DISCLOSURE (Cont.)

2010	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 indebtedness during the year
Name	\$	\$	\$	\$	\$	\$
J. Taylor	253,000	-	-	16,701	263,000	263,000
S. Adams	112,000	-	-	7,112	112,000	112,000
	375,000	-	-	23,813	375,000	375,000

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

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

d. Shareholdings

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

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

	Balance 1/1/11	Granted as compensation	Options Exercised	Other Changes ⁽¹⁾	Balance 31/12/11
Parent Entity Directors					
Mr S.P. Birkbeck	15,755,055	-	-	1,400,526	17,155,581
Mr J.J.U. Taylor	1,220,000	-	-	-	1,220,000
Mr S.C.B. Adams	686,666	-	-	-	686,666
Mr G. Newman	400,000	-	-	-	400,000
Other key management personnel					
Mr J. Jorgensen	-	-	-	-	-
Mr T. Jones	-	-	-	-	-
	18,041,721	-	-	1,400,526	19,442,247

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

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25. KEY MANAGEMENT PERSONNEL DISCLOSURE (Cont.)

	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	-	-	4,231,362	15,755,055
Mr I.M. Marchison ⁽²⁾	1,496,999	-	-	(1,496,999)	-
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	686,666	-	-	-	686,666
Mr G. Newman ⁽³⁾	-	-	-	400,000	400,000
Other key management personnel					
Mr J. Jorgensen	-	-	-	-	-
Mr T. Jones	15,535,336	-	-	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

e. Other transactions

Key management personnel

Payments were made in the year for additional marketing and technical consultancy undertaken by Mr S Birkbeck for \$23,750 (2010: \$nil) under normal commercial terms.

In April 2011, Atlas South Sea Pearl Ltd entered into an acquisition and consultancy agreement with Stephen Birkbeck acquiring various assets related to the extraction of proteins and fragrance from pearl nacre. These assets were subject to partial audit by Ellis and Page, Albany and provided Atlas with the IP rights to all of Mr Birkbeck's prior work over 5 years on the extraction of pearl active ingredients for perfumes, cosmetics, nutraceuticals and for re-injection back into high grade pearls for anti-aging and lustre enhancing properties. In addition it provided Atlas with the commercial rights to a range of other indigenous extracts that he had been developing with a USA Company.

The total cost to Mr Birkbeck and his related companies over the five year period was documented and estimated at \$500,000. Atlas acquired the assets and IP including but not limited to the following item:

- 1) S. Birkbeck's rights and IP to various technologies
- 2) Various plant and equipment
- 3) Market intelligence
- 4) Distribution networks, strategies and a blue print of the way forward; and
- 5) The broad market and perfume networks that Mr Birkbeck has built up over 30 years.

These assets were sold to Atlas for a nominal figure of \$25,000 for which the Board of Directors have recorded their appreciation to Mr Birkbeck and his family for their kind-generosity. Currently a third party has started to negotiate to invest in this extraction business and has placed a value of \$300,000 on these assets as at September 2011. While this Heads of Agreement is still under negotiation it does indicate that these assets are potentially undervalued on the balance sheet and should provide the company with future earnings that are scheduled to commence as at July 2012 as well as an avenue for external investment into the assets at a higher price than is shown on the balance sheet.

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

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25. KEY MANAGEMENT PERSONNEL DISCLOSURE (Cont.)

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

	2011	2010
	\$	\$
Amounts recognised as expense		
Research and development	18,750	-
Marketing consultancy	5,000	-
Amounts recognised as liability		
Payables	96,450	-

26. RELATED PARTY TRANSACTIONS

i. Subsidiaries

Interests in subsidiaries are set out in note 29.

The Company purchased pearls to the value of \$8,634,584 (2010 - \$8,681,941) 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 \$22,876 (2010 - \$39,687) from its wholly owned controlled subsidiary PT Cendana Indopearls. These transactions are in the normal course of business.

The wholly owned subsidiary Pearl'Eco Pty Ltd purchased pearl jewellery to the value of \$142,540 (2010 - \$nil) from its wholly owned controlled subsidiary PT Cendana Indopearls. These transactions are in the normal course of business.

The Company sold pearl jewellery and loose pearls to the value of \$539,299 (2010 - \$nil) to its wholly owned controlled subsidiary Pearl'Eco Pty Ltd. These transactions are in the normal course of business.

No provisions for doubtful debts have been raised in relation to any outstanding balances during 2011 or 2010, and no expense has been recognised in respect of bad and doubtful debts due from related parties.

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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:

	2011	2010
	\$	\$
a. BDO Australia		
Audit and other assurance services		
Audit and review of financial reports	83,812	66,858
Total remuneration for audit and other assurance services	83,812	66,858
Taxation Services		
Tax compliance services and advice	26,011	37,783
Total remuneration for taxation services	26,011	37,783
Total remuneration of BDO Australia	109,823	104,641
a. Related practices of BDO Australia		
Audit and other assurance services		
Audit and review of financial reports	32,260	33,404
Total remuneration for audit and other assurance services	32,260	33,404
Taxation Services		
Tax compliance services and advice	1,356	1,607
Total remuneration for taxation services	1,356	1,607
Total remuneration of related practices of BDO Australia	33,616	35,011
Total auditors remuneration	143,439	139,652

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2B. 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 2011 is as follows:

2011	Wholesale Loose Pearl			Jewellery		All other segments	Total
	Australia	Indonesia		Australia	Indonesia		
Total segment revenue	10,886,441	8,638,578		985,170	1,378,013	-	21,186,203
Inter-segment revenue	(150,256)	(8,838,578)		(407,412)	(165,416)	-	(9,361,662)
Revenue from external customers	10,516,185	-		97,758	1,210,597	-	11,824,540
Adjusted net operating profit(loss) before income tax	1,181,148	524,307		(49,491)	581,243	-	2,217,208
Depreciation and amortisation	52,933	22,165		7,158	39,053	-	121,309
Total segment assets	4,873,735	15,497,863		1,061,443	2,762,845	-	24,195,886
Total assets includes:							
Additions to non-current assets (other than financial assets or deferred tax)	816,274	980,614		331,093	261,153	-	2,389,134
Total segment liabilities	1,363,849	972,243		751,722	(18,386)	-	3,069,427

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

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2B. 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 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		29,689	970,233	-	15,736,567
Inter-segment revenue	-	(7,165,238)		-	(39,687)	-	(7,204,925)
Revenue from external customers	8,571,426	-		29,689	930,546	-	9,531,642
Adjusted net operating profit(loss) before income tax	(1,977,064)	548,120		12,374	416,213	-	(1,000,357)
Depreciation and amortisation	6,594	22,895		-	24,360	-	53,849
Total segment assets	1,795,101	14,444,622		-	2,185,812	-	18,425,535
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	886,129		-	10,500	-	1,293,377

Included within the net operating profit for wholesale loose pearls in Indonesia is an impairment charge of \$224,067 in relation to the impairment of loose pearl stock

(b) Error in the accounting of share based payments

Refer to note 30 for explanations of an error made in the accounting for share based payments in previous financial years. The segment assets of the wholesale loose pearl segment in Australia were overstated by \$173,697. The error also had the effect of understating adjusted net operating loss for the year ended 31 December 2010 by \$770 and overstating operating profit in the Indonesia segment of wholesale loose pearls by \$2,506. The error has been corrected by restating each of the affected segment information line items for the prior year as described above.

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28. SEGMENT REPORTING (Cont.)

(c) Other segment information

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

	2011	2010
	\$	\$
Total segment revenue	21,186,203	16,736,567
Intersegment eliminations	(9,361,662)	(7,204,925)
Interest income	16,753	38,383
Other revenues	588,678	271,670
Total revenue from continuing operations (note 2)	12,350,171	9,841,695

Major customers

The Company's previous wholesale pearl agent accounted for 13% of external revenue in 2010. A Japanese wholesaler accounted for 34% of external revenue (2010 - 37%). These revenues are attributable to the Australian wholesale loose pearl segment.

The entity is domiciled in Australia. The result of its revenue from third party customers in Australia is \$742,134 (2010 \$928,950) in relation to wholesale loose pearl sales. Revenue for wholesale loose pearls from third party customers based in other countries in 2011 was \$9,774,061 (2010: \$6,929,679). 75% of the total loose pearl sales revenue in 2011(2010:91%) 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

28. SEGMENT REPORTING (Cont.)

(c) Other segment information (Cont.)

- (ii) Adjusted net operating profit
Segment net operating profit(loss) before income tax reconciliation to the statement of comprehensive income

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

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

	2011	2010
	\$	\$
Net operating profit/(loss) before tax	2,217,208	(1,000,357)
Intersegment eliminations	(798,661)	1,619,638
Changes in fair value of biological and agricultural assets	962,454	2,718,863
Interest revenue/(expense)	(211,904)	(123,588)
Gain on bargain purchase	-	51,050
Impairment expense	(144,372)	(235,733)
Foreign exchange gains	1,129,885	1,448,680
Foreign exchange losses	(2,048,616)	(1,860,519)
Other	(7,973)	(11,968)
Profit/(loss) before income tax from continuing operations	1,098,031	2,892,066

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2a. SEGMENT REPORTING (Cont.)

(c) Other segment information (Cont.)

(iii) Segment assets

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

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

	2011	2010
Segment assets	\$ 24,195,886	\$ 18,425,535
Intersegment eliminations	(1,714,791)	270,734
Unallocated:		
Other	586	251
Deferred tax assets	1,388,527	1,313,762
Fair value adjustments on biological and agricultural assets	6,961,192	5,968,739
Derivative financial instruments	-	240,053
Total assets as per the statement of financial position	30,831,380	26,249,094

The total of non-current assets other than financial instruments, deferred tax assets and fair value adjustments on biological and agricultural assets located in Australia is \$1,126,883 (2010: \$222,968). The total located in Indonesia is \$14,041,299 (2010: \$48,335,382).

(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:

	2011	2010
Segment liabilities	\$ 3,069,427	\$ 1,283,377
Intersegment eliminations	(581,640)	506,031
Unallocated:		
Other	3,564	3,888
Current tax liabilities	74,417	42,446
Borrowings	5,720,486	3,536,120
Deferred tax liabilities	2,215,055	1,800,493
Derivative financial instruments	146,450	-
Total liabilities as per the statement of financial position	10,457,559	7,231,355

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2b. 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 2011	Percentage owned 2010	Place of incorporation
Peri'Eco Pty Ltd (1)	Ord	100%	100%	Australia
Tansim Pty Ltd	Ord	100%	100%	Australia
P.T. Ceandana Indonesia	Ord	100%	100%	Indonesia
Aspirasi Satria Sdn Bhd	Ord	100%	100%	Malaysia

(1) Previously named Shearson Pty Ltd

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

30. CORRECTION OF ERROR IN ACCOUNTING FOR SHARE BASED PAYMENTS

During the financial year it was discovered that the accounting for the share based payments to employees had been misinterpreted. As a consequence, the transactions of shares issued under the employee share plan had been incorrectly accounted for.

The establishment of a loan receivable for the associated limited-recourse loans and an increase in issued capital was incorrect. These loans were subsequently impaired to the extent that the carrying value of the loan in relation to shares not taken up exceeded the market value of those shares. The amount relating to the difference between the market price of the shares and the issue price to employees was recognised as an issue of shares in equity at issue price and the fair value portion in reserves. A corresponding amount for the fair value was shown as part of employee costs in the period in which the shares vested. Any dividends paid in respect to shares not taken up by employees under the Employee Share Plan were offset against the loans receivable.

The correct accounting treatment should have been to account for the grants to employees as options under AASB 2 Share-Based Payments. The loans receivable did not meet the definition of an asset and should be derecognised. In addition the shares should be treated as treasury shares.

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30. CORRECTION OF ERROR (Cont.)

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

	31-Dec-2010	Increase/(decrease)	31-Dec-2010 (restated)	31-Dec-2009	Increase/(decrease)	31-Dec-2009 (restated)
	\$	\$	\$	\$	\$	\$
Balance sheet (extract)						
Trade and other receivables	1,412,793	(173,698)	1,239,095	1,613,920	(271,191)	1,342,729
Deferred tax assets	1,430,258	(116,476)	1,313,782	1,040,645	(96,714)	943,931
Net assets	19,307,913	(290,174)	19,017,739	16,678,404	(367,905)	16,310,499
Contributed equity	23,234,922	(722,000)	22,512,922	22,073,494	(769,249)	21,304,245
Reserves	(7,082,381)	514,029	(6,568,352)	(6,190,488)	510,738	(5,679,750)
Retained profits	3,155,372	(82,203)	3,073,169	795,388	(109,394)	686,004
Total equity	19,307,913	(290,174)	19,017,739	16,678,404	(367,905)	16,310,499

	31 December 2010	Profit Increase/(Decrease)	31 December 2010 (Restated)
	\$	\$	\$
Income statement (extract)			
Administration expenses	(3,176,472)	(18,923)	(3,195,395)
Other expenses	(2,119,823)	65,878	(2,053,947)
Profit before income tax expense	2,755,113	46,953	2,802,066
Income tax expense	(396,139)	(19,762)	(414,901)
Profit for the year	2,359,974	27,191	2,387,165
Profit is attributable to: owners of the company	2,359,974	27,191	2,387,165

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for basic and diluted earnings per share was an increase of 0.05 cents per share for basic earnings per share and dilutive earnings per share was 1.88 cents per share, previously having no dilutive earnings per share.

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31. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2011	2010
	\$	\$
Statement of financial position		
Current assets	21,637,334	19,528,651
Total assets	23,978,528	21,088,471
Current liabilities	6,835,557	4,369,646
Total liabilities	6,866,243	4,493,886
Shareholders equity		
Issued capital	23,287,552	22,512,922
Reserves	581,029	581,029
Share-based payment reserve	(6,796,297)	(6,499,366)
Retained earnings	17,112,284	16,594,585
Profit / (loss) for the year	(256,932)	(1,311,424)
Total comprehensive income	(256,932)	(1,311,424)

(b) Contingent liabilities

The parent entity did not have any contingent liabilities as at 31 December 2011 or 31 December 2010.

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32. FINANCIAL RISK MANAGEMENT (Cont.)

(i) 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.

(ii) Price risk

The Group is exposed to fluctuations in peat 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. For retail customers without credit rating the Group generally retains title over the goods sold until payment is received in full.

All cash balances held at banks are held at internationally recognised institutions. The Australian Government has guaranteed all deposits held with Australian banks cash held in Indonesia is not covered by this guarantee. The majority of other receivables held are with related parties and within the Group. Given 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

	2011	2010
	\$	\$
Retail customers – no credit history	3,665	27,643
Wholesale customers – existing customers with no defaults in the past	72,237	142,637
Total trade receivables	75,902	170,280
Derivative financial assets	-	240,053

Balance Sheet Amount	2011	2010	Financial Assets	Cash	Trade and other receivables	Derivatives	Financial Liabilities	Trade and other payables	Borrowings	Derivatives	Total Increase/(Decrease)
31 December 2011	Profit	(1,086,169)	-	2,623	-	-	-	(43,019)	(531,014)	(483,748)	(1,086,169)
	Equity	-	-	(2,146)	-	-	-	26,680	450,681	469,264	883,462
	Profit	10%	-	-	-	-	-	-	-	-	-
	Equity	-	-	-	-	-	-	-	-	-	-
31 December 2010	Profit	-10%	-	16,677	15,524	(447,088)	(32,134)	(370,426)	-	(816,488)	(816,488)
	Equity	-	-	-	-	-	-	-	-	-	-
	Profit	-	-	-	-	-	-	-	-	-	-
	Equity	-	-	-	-	-	-	-	-	-	-
Foreign Exchange Rate Risk											
31 December 2010	Profit	-	-	-	-	-	-	-	-	-	-
	Equity	-	-	-	-	-	-	-	-	-	-
	Profit	-	-	-	-	-	-	-	-	-	-
	Equity	-	-	-	-	-	-	-	-	-	-

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 effect on profit and equity

32. FINANCIAL RISK MANAGEMENT (Cont.)

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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 forecasted 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	2011 \$	2010 \$
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 provided under a Japanese Yen facility with fixed interest rates varying from 3.8% to 3.9% and are repayable within the year. As at reporting date the Company had drawn down \$4,888,227 (2010:\$3,465,813) and had undrawn facilities available of \$131,773 (2010: \$1,534,157). This loan can be drawn at anytime and is subject to annual review.

The Other bank loan (secured) is also provided by Commonwealth Bank of Australia Ltd and is secured by the same charge over the whole of the assets and undertakings of Atlas South Sea Pearl Ltd and its related entities as above. These loans are provided under an Australian Dollar denominated business loan which had a variable interest rate of 8.77%. The loan has a term of three years expiring on 24 November 2014 and is repayable in equal monthly amounts over the term of the loan. As at the reporting date, the amount outstanding on this loan was \$243,830.

Lease liabilities have been provided by St George Bank and Esanda and are effectively secured by the rights to the leased assets, recognised in the financial statements, which revert to the lessor in the event of default. The value of the loans relating to Lease liabilities as at the balance date was \$338,716 (2010: \$24,091).

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

1. Earnings before interest, tax, depreciation and amortisation (EBITDA) will be at least equal to, a profit of \$2,195,000 for 2012.
2. Minimum net worth of the borrower (Atlas) will at all times be greater than \$18,000,000; and
3. The ratio of net worth of the borrower to total tangible assets of the borrower will at all times be equal to or greater than 60%.

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

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32. FINANCIAL RISK MANAGEMENT (Cont.)

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

CONSOLIDATED ENTITY	Less than 6 Months	6-12 months	Between 1 & 2 years	Between 2 & 5 years	Total contractual cash flows	Carrying amount (asset)/Liability
Trade payables	1,562,912	-	-	156,502	1,562,912	1,065,071
Borrowings	5,167,738	162,788	183,480	156,502	5,720,488	4,888
Total non-Derivatives	8,730,650	162,788	183,480	156,502	9,233,420	4,888
Derivatives	-	-	-	-	-	-
Net settled (Non deliverable forwards)	30,036	-	-	30,036	(6,848)	(128,705)
Gross settled	-	-	-	-	-	-
-(Inflow)	(2,800,000)	(4,000,000)	-	(6,800,000)	(12,600,000)	(3,300,000)
-outflow	2,830,381	4,224,812	-	7,055,003	14,050,196	3,233,450
Total Derivatives	60,429	224,812	-	288,041	513,282	(196,255)

Borrowing, 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 2012. Bank bills which expire within the first six months of 2012 will be rolled over into a new loan with a revised maturity date within 6-12 months.

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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 2011				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Assets				
Derivatives	-	-	-	-
Total Assets	-	-	-	-
CONSOLIDATED ENTITY – as at 31 December 2010				
Assets				
Derivatives	-	240,053	-	240,053
Total Assets	-	240,053	-	240,053

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.

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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 2011 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 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfer of Financial Assets	Additional disclosures required for entities that transfer financial assets	1 July 11	1 Jan 12
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 2011-9	Amendments to Australian Accounting Standards – Presentation of Items in Other Comprehensive Income	Makes amendments to align the presentation of items of other comprehensive income with US GAAP.	1 July 12	1 Jan 13
AASB 9	Financial Instruments	Changes to classification and measurement requirements of financial instruments.	1 Jan 13	1 Jan 13
AASB 10	Consolidated Financial Statements	Changes to classification and measurement requirements of entities requiring consolidation.	1 Jan 13	1 Jan 13
AASB 11	Joint Arrangements	Changes to classification and measurement requirements of joint arrangements.	1 Jan 13	1 Jan 13
AASB 12	Disclosure of Interests in Other Entities	Introduces new disclosure requirements for interest in associates and joint arrangements.	1 Jan 13	1 Jan 13

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES
NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
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33. CHANGE IN ACCOUNTING POLICIES (Cont.)

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single framework for measuring fair value of financial and non financial items recognised at fair value in the statement of financial position or disclosed in notes in the financial statements.	1 Jan 13	1 Jan 13
AASB 119 (reissued September 2011)	Employee Benefits	Changes to measurement of defined benefit plans and timing of recognition of liabilities	1 Jan 13	1 Jan 13
AASB 1054 (issued May 2011)	Australian Additional Disclosures	Moves additional Australian specific disclosure requirements from various Australian Accounting Standards into this standard as a result of the Trans-Tasman Convergence Project.	1 Jul 11	1 Jan 12

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

33. POST BALANCE DATE EVENTS

Atlas South Sea Pearl Limited undertook a Rights Issue which closed on 16th March 2012. The Company has issued 76,347,420 shares at a price of five (5) cents per share and raised \$3,817,371 before costs. The new shares will rank equally with the Company's existing issued shares.

Subsequent to the close of the Rights Issue, a further 2,000,000 ordinary shares have been issued at a price of five (5) cents per share from the shortfall of the Rights Issue.

Subsequent to the year end, Simon Adams has resigned from the position of Managing Director and has been replaced by Mr Stephen Birkbeck in the capacity of Executive Chairman. Mrs Cecilia Tyndall has resigned as Company Secretary and has been replaced by Mr Simon Adams. Mr John Folan resigned as Chief Financial Officer and has been replaced by Mr Stephen Gleeson.

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

34. ECONOMIC DEPENDENCY

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

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES

DECLARATION BY DIRECTORS

The Directors of the Company declare that:

- 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;
- give a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of the performance for the year ended on that date; and
 - comply with Accounting Standards, and the Corporations Regulations 2001.
- the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
- the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 285A.
- 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.
- the remuneration disclosures included on pages 14 to 21 of the Directors' Report (as part of audited remuneration report) for the year ended 31 December 2011 comply with section 300AA 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. Birkbeck
Chairman
Perth, Western Australia

30th March 2012



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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ATLAS SOUTH SEA PEARL LIMITED
Report on the Financial Report

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 2011, 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.

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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 2011 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 for the year ended 31 December 2011. 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 2011 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien
Director

Perth, Western Australia

Dated this 30th day of March 2012

ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES

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 23 March 2012)

Substantial shareholders

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

Shareholder	Ordinary shares	Percentage of Capital Held
Mr W G & Ms B M Martin *	27,800,000	12.6%
Raintree Pearls and Perfumes Pty Ltd **	27,247,100	12.3%
Warman (Nominees) Pty Ltd	13,426,230	6.1%

* Includes shares held by Chemco Superannuation Fund and Jingle Investments Pty Ltd

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

Voting rights

Ordinary shares

Refer to note 16

Distribution of shareholders – Ordinary Shares

Category	Number of holders
1 - 1,000	122
1,001 - 5,000	491
5,001 - 10,000	376
10,001 - 100,000	746
100,001 and over	466
	2,201

Number holdings less than a marketable parcel

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Twenty largest shareholders

	Number of ordinary shares held	Percentage of capital held
CHEMCO SUPERANNUATION FUND PTY LTD <CHEMCO SUPER FUND NO 2 A/C>	18,000,000	7.23
RAINTREE PEARLS & PERFUMES PTY LTD	13,726,242	6.21
SP & K BIRKBECK HOLDINGS PTY LTD	13,520,853	6.11
<SP & K BIRKBECK S/F A/C>	13,426,230	6.07
WARMAN (NOMINEES) PTY LIMITED <WARMAN INVEST A/C>	11,800,000	5.33
JINGIE INVESTMENTS PTY LTD	8,000,000	3.52
QUIET VOICE LIMITED		

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ATLAS SOUTH SEA PEARL LIMITED AND ITS SUBSIDIARIES

SHAREHOLDER INFORMATION

Twenty largest shareholders (Cont.)

	Number of ordinary shares held	Percentage of capital held
FARJOY PTY LTD	7,068,412	3.21
MIR CHRIS CARR + MRS BETSY CARR	5,000,000	2.26
BYRON BAY CELEBRANT PTY LTD <CHRISTOPHER & LYNDIA DEAN S/F A/C>	3,970,589	1.79
FIVE TALENTS LIMITED	3,620,000	1.64
DORRAN PTY LTD	3,000,000	1.36
COAKLEY PASTORAL CO PTY LTD <TIM COAKLEY SUPER FUND A/C>	3,000,000	1.36
FITZPATRICK (WA) PTY LTD	2,775,000	1.25
FORSYTH BARR CUSTODIANS LTD	2,365,426	1.07
<FORSYTH BARR LTD-NOMINEE A/C>	2,300,000	1.04
SHARCON PTY LTD <ATLAS PACIFIC EXECUTIVE SHARE >	2,000,000	0.90
NEJEKA PTY LTD <MANSFIELD SUPER FUND A/C>	1,866,464	0.84
CAPITAL PROPERTY FINANCE PTY LIMITED	1,820,000	0.82
MIR PAUL FRANCIS MURRAY	1,639,097	0.74
MIR ROBERT LOVEDAY + MRS KETUT LOVEDAY <DIAMOND A/C>	1,508,089	0.68
ARROW PEARL CO PTY LTD	118,437,407	53.54

Total number of shares on issue

221,205,517 (as at 30th March 2012)

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

Mr Simon Charles Bambury Adams

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