

ATLAS

PEARLS AND PERFUMES

ABN 32 009 220 053

Appendix 4D Half Year Report

Name of entity

ATLAS PEARLS AND PERFUMES LTD

ABN	Half Yearly	Preliminary final	Half Year ended
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32 009 220 053

31 December 2016

Results for announcement to the market

The information in this report should be read in conjunction with the most recent annual financial report. The reporting period and previous corresponding period are 31 December 2016 and 31 December 2015.

Revenue from ordinary activities	Up 5%	To \$7,360,558
Net profit/(loss) from the period attributable to members	Down 13%	To \$423,602
Normalised EBITDA	Down 5%	To \$696,903
Dividends (distributions)	Amount per security	Franked amount per security
Final dividend	Nil c	Nil c
Interim dividend		
Previous corresponding period	Nil c	Nil c
Net Tangible Asset backing	Current period	Previous corresponding period
Net Tangible Asset backing	6.2c	5.9c

Signed by:



Name: Geoff Newman

Date: 28/02/2017

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ATLAS

PEARLS AND PERFUMES

ATLAS PEARLS AND PERFUMES LTD

A.B.N. 32 009 220 053

INTERIM FINANCIAL REPORT

31 DECEMBER 2016

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

DIRECTORS REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Your Directors present their report on the consolidated entity, consisting of Atlas Pearls and Perfumes Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

Directors

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

Name	Period of Directorship
Geoff Newman, B.Ec (Hons), M.B.A, F.C.P.A , F.A.I.C.D <i>Chairman</i>	Director since 15 October 2010 Appointed Chairman 16 February 2015
Timothy James Martin, B.Arts, M.B.A, G.A.I.C.D <i>Independent Non-Executive Director</i>	Director since 4 February 2013
Pierre Fallourd <i>CEO, Managing Director</i>	Director since 4 January 2016

REVIEW OF OPERATIONS

The 6 months to 31 December 2016 has been dominated by ongoing efforts to deliver the company's strategic vision as outlined in the June 2016 Annual Report.

Trading results are in line with the same period last year, predominantly due to continued favourable effects of a lower Australian dollar against the Japanese Yen. Production quality is improving, but this has not been realised in revenue terms due to a softening of market conditions, particularly for high quality goods. This has resulted in select high quality lots being withdrawn from Auction sale, and remaining in inventory at 31 December. The company will seek to maintain this value and find alternate pathways to market for these premium goods.

From a strategy perspective, focus has remained firmly on Hatchery Operations and Seeding. Skilled, experienced staff from Australia are now in place, with mandates to refine both systems and process, while the Company is making a major training investment to improve the skills of local Indonesian staff. Industry leading consultants have also been providing an additional layer of oversight to ensure that Atlas' hatchery operations become world's best practice in Pinctada Maxima cultivation. While it will be a full production cycle of 4 years before these efforts bring profits to shareholders, it remains a key part of the company's strategic development.

In the pursuit of shorter term growth, Atlas has, in the last 6 months, begun the capital investment program necessary to materially increase our site capacity to host seeded oysters. Along with the necessary infrastructure spend, relationships have been established with reputable, long term Indonesian oyster farmers to source quality virgin stock to progress the initial stages of the company's growth plan over the next 2 years, while the juveniles currently being produced in the hatcheries grow to seedable age.

It is a testament to the Board's faith in the staff and the company strategy that a Director, Mr Tim Martin, and the Martin Family have chosen to fund this program as announced to the market on 31 January 2017.

The core activities of the economic entity are:

1. the management of a pearl farming business in Indonesia, and
2. the operation of a pearl value adding platform to grade, match, design, manufacture and distribute pearls and pearl jewellery.
3. the operation of an essential oils business in Tasmania.

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

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

REVIEW OF OPERATIONS CONT.

1. Financial Result

Atlas recorded a net profit after tax for the period ended 31 December 2016 of \$0.42M, in line with the \$0.49M profit for the 6 months to 31 December 2015.

The valuation of the company's Oyster stock, the source of material movements in prior years that has had major effects on NPAT, including to December 2015, has remained stable in this reporting period.

To give a better picture of underlying performance, Atlas has adopted Normalised Earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA) as the most effective way to report comparative results.

Normalised EBITDA (unaudited) specifically excludes foreign exchange and agricultural asset revaluation movements and as a result provides a clear assessment of the company's underlying financial performance.

	Half-Year		Change	%
	6 Months Ended 31 Dec 2016	6 Months Ended 31 Dec 2015		
Total revenue from continuing operations	7,360,558	7,036,790	Up	5%
Profit/(loss) from continuing operations after tax	423,602	487,891	Down	13%
Normalised Earnings before interest, taxes, depreciation and amortisation (Normalised EBITDA)*	696,903	732,518	Down	5%

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

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

	6 Months Ended 31 Dec 2016 \$	6 Months Ended 31 Dec 2015 \$
Profit/ (Loss) for the Half-Year	423,602	487,891
Less: Net Forex (gain)	(100,917)	(243,200)
Add: Net Interest	123,965	149,378
Add: Depreciation/Amortisation	215,799	209,091
Add: Income tax charge/(refund)	399,335	997,718
Add: Other non-operating (income)/expense	215,795	(170,234)
Less: Derivative instruments loss/(gain) unrealised	(575,201)	97,051
Less: Revaluation of Biological Assets and Inventory	(5,475)	(795,177)
Normalised EBITDA	696,903	732,518

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

REVIEW OF OPERATIONS CONT.

1. Financial Result (Cont.)

a. Operating results

Consolidated revenues were \$7.4M for the six months ended 31 December 2016, up 5% or \$323k over the same 6 month period in 2015. The primary driver for the continued revenue growth remains the company's loose pearl sales values at a trading level. Auction and private sales revenues for the half year totalled \$6,556,382 (2015: \$6,281,649).

Gross profit results followed this trend with the gross margin at 55%, up from 50.04% in the equivalent period in 2015.

The company's overheads have increased marginally over the same period last year, driven by the 11.5% statutory increase in Indonesian wages in January 2016, as well as a number of one off costs related to legal fees. Marketing efforts have increased at both retail and corporate branding levels, and costs are up year on year after being heavily cut back in 2015. Internal cost allocations were also adjusted from 1 July 2016, contributing to the Marketing cost centre increase.

b. Financial position

Cash reserves have decreased to \$1.7M (30 June 2016 - \$4.3M) at 31 December 2016. Core operations have generated a positive cash flow, however with the withdrawal of high value lots in December, revenues have been deferred to the second half of the year. In addition, capital investment in growth related activities, tax payments and the reduction of bank debt have resulted in the negative movement.

In light of this and the commitment to growth, the company's cash position was reinforced in January 2017 via external funds to the value of \$1.5M.

Oyster asset values have increased to \$18.2M during the six months ended 31 December 2016. This is primarily due to the increase in the number of oysters held, and corresponding increase in cost. Total oyster stocks at 31 December 16 is 1.9m shells compared to 1.4m at 30 June 16. There has only been a minor adjustment in the fair value less husbandry costs of oysters during the six months ended 31 December 2016 of \$5K.

The number of pearls on hand have increased from 66,979 at 30 June 2016 to 108,917 at 31 December 2016, reflecting high quality goods withdrawn from Auctions and remaining in stock at 31 December. The net realisable value has increased from \$1.3M at 30 June 2016 to \$3.3M at 31 December 2016, however pearl stock is held at a value of \$2.3M as inventory is required to be valued at the lower of cost and net realisable value.

Jewellery inventory was \$1.1M as at 31 December 2016, down \$0.2M on the balance of \$1.3M at 30 June 2016. A provision for inventory obsolescence for \$100K was in place at 30 June 2016 to provide for slower moving inventory lines, and a provision balance of \$60K remains in place at 31 December 2016.

Borrowings were \$3.6M at 31 December 2016, \$584K lower than 30 June 2016 (\$4.2M) due primarily to the repayment of \$500k in core debt to the Commonwealth bank in the period.

The Company's net tangible assets per share were \$0.062 as at 31 December 2016, which has improved on the position at 30 June 2016 (30 June 2016 net tangible assets per share at \$0.059). The number of shares in issue has increased to 427,871,758 (30 June 2016 - 425,398,600).

DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016

REVIEW OF OPERATIONS CONT.

2. Pearling Operations

Pearling operations remain on a consistent platform. Oyster mortalities remain within expected levels, current year seeding targets are progressing well and pearl quality continues to benefit from seeding changes made in 2015.

Water temperatures have returned to normal levels as the El Nino effects faded, and the company is pleased to report that our mature Oyster stocks have been well managed and remain unaffected. Losses were experienced in our juvenile stocks, but current volumes are increasing and external shell purchases will ensure that any gaps are filled and the company's growth targets are met.

Hatchery improvements continue to be a focus and are showing significant signs of progress. Trials of alternate early husbandry processes, food production and settling mediums are providing valuable data, and commercial applications of these alternate processes is expected to show improvements to juvenile oyster numbers within the year.

In order to accommodate the company's growth plans, infrastructure investment to increase capacity has begun and is proceeding on schedule. To compliment this internal approach, Atlas continues to develop relationships with Indonesian farmers to evaluate joint venture programs at all stages of the production cycle with a view to adding additional capacity without the need to fund the development of new sites.

3. Sales

The company has held successful Auction sales in October and December 2016. The quality of the inventory offered for sale, particularly in the December Auction, was representative of the company's improving harvest profile, with increasing volumes in the higher grades.

Market conditions at these two auctions were down, with political uncertainty in World markets around the US elections resulting in a cautious stance by a number of the larger traders.

As a result, bids were on average 10 - 20% lower than those experienced for similar goods in 2015/16. This resulted in the selective withdrawal of high quality, high value lots, however the remaining inventory value was sufficient to ensure the company's revenue performance was in line with this time last year.

The company will now seek alternate pathways to market for its premium, high value goods. This has begun with a new Auction in Hong Kong which was held on February 14/15. While pricing remains less than ideal and the result again only adequate, feedback in relation to Atlas's market position was encouraging, and the company has again retained a portion of high value stock. Atlas will now pursue international private sales in the coming months to deliver the best possible value to shareholders in the current markets.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**DIRECTORS REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

SIGNIFICANT CHANGES

On the 24th Jan 2017, Atlas secured a \$1.5M financing package from a related party Mr. Tim Martin, and the Martin Family. The loan is structured over a 3-year period at a 7.5% interest rate paid quarterly with staged principal repayments starting from February 2018. The objective of this loan is to enable the Company to proceed with capital infrastructure investments at the Company's pearling sites designed to substantially increase capacity to operate and maintain seeded oyster stock.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

Signed in accordance with a resolution of the Directors.



**G Newman
Chairman**

28/02/2017

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

As lead auditor for the review of Atlas Pearls and Perfumes Ltd for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

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

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



Glyn O'Brien
Director

BDO Audit (WA) Pty Ltd
Perth, 28 February 2017

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		6 Months Ending	6 Months Ending
		31 Dec 2016	31 Dec 2015
	Note	\$	\$
Revenue from continuing operations	3	7,360,558	7,036,790
Cost of goods sold		(3,301,581)	(3,485,292)
Gross profit		4,058,977	3,551,498
Other income	3	1,037,073	996,272
Marketing expenses		(268,466)	(107,333)
Administration expenses	4	(3,055,268)	(2,842,975)
Finance costs	4	(230,839)	(200,681)
Other expenses	4	(540,271)	(625,229)
Change in fair value less husbandry cost of oysters and pearls		5,475	795,177
Share of equity accounted investments		(183,744)	(81,120)
Profit/(Loss) before income tax		822,937	1,485,609
Income tax (charge)/benefit		(399,335)	(997,718)
Profit/(Loss) for the period from continuing operations after income tax		423,602	487,891
Other comprehensive (expenses)/income			
Items that will be reclassified as profit or loss:			
Exchange differences on translation of foreign operations		151,825	221,985
Other comprehensive income/(expenses) for the period, net of tax		151,825	221,985
Total comprehensive income/(expenses) for the period		575,427	709,876
Profit/(loss) is attributable to:			
Owners of the Company		423,602	487,891
Total comprehensive income/(expenses) is attributable to:			
Owners of the Company		575,427	709,876
Overall operations:			
Earnings per share			
for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings/(loss) per share (cents)	5	0.10	0.12
Diluted earnings/(loss) per share (cents)	5	0.10	0.11

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

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

		31 Dec 2016	30 June 2016
		\$	\$
Current assets	Note		
Cash and cash equivalents		1,762,993	4,343,407
Trade and other receivables		803,763	726,993
Derivative financial instruments	10	321,877	-
Inventories	6	3,717,817	2,949,908
Biological assets	7	5,633,029	5,331,477
Total current assets		12,239,479	13,351,785
Non-current assets			
Intangibles		104,213	161,969
Loans to Joint Venture Entity		1,033,525	1,016,456
Investment accounted for using Equity Method		-	183,744
Inventories	6	109,626	199,393
Biological assets	7	12,585,176	12,118,179
Property, plant and equipment	8	5,055,040	4,740,815
Deferred tax assets		2,893,493	3,035,807
Total non-current assets		21,781,073	21,456,363
Total assets		34,020,552	34,808,148
Current liabilities			
Trade and other payables		2,360,301	2,528,685
Borrowings	9	3,633,392	4,191,016
Derivative Financial Instruments		-	253,324
Current tax liabilities		82,690	661,111
Total current liabilities		6,076,383	7,634,136
Non-current liabilities			
Borrowings	9	6,666	33,553
Deferred tax liabilities		1,366,161	1,315,815
Total non-current liabilities		1,372,827	1,349,368
Total liabilities		7,449,210	8,983,504
Net assets		26,571,342	25,824,644
Equity			
Contributed equity	13	36,857,415	36,698,536
Reserves		(8,236,266)	(8,400,478)
Retained profits/(accumulated reserves)		(2,049,807)	(2,473,414)
Total equity		26,571,342	25,824,644

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

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of Atlas Pearls and Perfumes Ltd					
	Contributed equity	Share based payment reserve	Foreign currency translation reserve	Retained profits/(accumulated reserves)	Total equity	
	Note	\$	\$	\$	\$	
Balance at 1 July 2015		36,465,656	682,341	(9,732,299)	(3,441,517)	23,974,181
(Loss) for the period		-	-	-	487,891	487,891
Exchange differences on translation of foreign operations		-	-	221,985	-	221,985
Total comprehensive income for the period		-	-	221,985	487,891	709,876
Transactions with owners in their capacity as owners						
Contributions of equity, net of transaction costs		9,123	-	-	-	9,123
Dividends provided for or paid		-	-	-	-	-
Employee share scheme		-	28,908	-	-	28,908
		9,123	28,908	-	-	38,031
Balance at 31 December 2015		36,474,779	711,249	(9,510,314)	(2,953,626)	24,722,088
Balance at 1 July 2016		36,698,536	714,605	(9,115,083)	(2,473,414)	25,824,644
Profit for the period		-	-	-	423,602	423,602
Exchange differences on translation of foreign operations		-	-	151,825	-	151,825
Total comprehensive income for the period		-	-	151,819	423,602	575,427
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	13	158,879	-	-	-	158,879
Dividends provided for or paid		-	-	-	-	-
Employee share scheme		-	12,392	-	-	12,392
		158,879	12,392	-	-	171,271
Balance at 31 December 2016		36,857,415	726,997	(8,963,258)	(2,049,812)	26,571,342

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

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016**

	6 Months Ending 31 Dec 2016 \$	6 Months Ending 31 Dec 2015 \$
Cash flows from operating activities		
Proceeds from pearl, jewellery and oyster sales	7,288,632	6,962,587
Proceeds from other operating activities	77,663	351,997
Interest paid	(152,618)	(169,869)
Interest received	13,453	20,491
Payments to suppliers and employees	(7,731,965)	(6,623,189)
Income tax (paid)/ refund received	(809,912)	(725,255)
Net cash (used)/ provided by operating activities	(1,314,747)	(183,238)
Cash flows from investing activities		
Payments for property, plant and equipment	(684,294)	(363,419)
Net cash (used in) investing activities	(684,294)	(363,419)
Cash flows from financing activities		
Proceeds from borrowings	82,306	1,176,521
Repayment of borrowings	(666,818)	(314,195)
Share transaction costs	-	(1,874)
Net cash (used in)/ provided by financing activities	(584,512)	860,452
Net (decrease)/increase in cash and cash equivalents	(2,583,553)	313,795
Cash and cash equivalents at the beginning of the financial period	4,343,407	2,632,311
Effects of exchange rate changes on cash and cash equivalents	3,139	(4,156)
Cash and cash equivalents at the end of the financial period	1,762,993	2,941,950

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

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NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

1. BASIS OF PREPARATION OF HALF-YEAR REPORT

This consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the period ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

There were no new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2016, which impacted the Group.

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

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 4 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.

2. GOING CONCERN

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

The net profit after tax for the Group for the period ended 31 December 2016 amounted to a profit of \$0.42m (period ended 31 Dec 2015 \$0.49m profit).

At 31 December 2016 the Group had a working capital balance of \$6.2m (June 2016: \$5.7m); \$5.6m (June 2016: \$5.3m) of this balance comprised of unharvested oysters due for harvest during the next 12 months. As at the 31 December 2016 the Group had a net asset position of \$26.5m (June 2016: \$25.8m); \$18.2m (June 2016: \$17.4m) of this balance comprised of unharvested oysters.

The company extended debt facilities with CBA in September 2016 with an agreed repayment plan of \$4m over the course of the year to June 2017. The first two payments under this agreement have been met in full. Two further payments of \$1.25m and \$2.25m will be required on 28 April and 20 June 2017 respectively. The ability of the Group to both meet these repayments and continue to fund its working capital requirements are dependent upon:

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

2. GOING CONCERN CONT.

- the international market for wholesale loose white south sea pearls maintaining existing demand levels and pricing;
- the Group meeting its auction forecasts;
- the Group maintaining profitable operations with positive operating cash flows;
- the realisation of assets at amounts greater than their carrying values, and
- the refinancing of the existing debt facility, or the raising of new debt or equity finance.

These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its' liabilities in the normal course of business.

Management believe that there are reasonable grounds to believe that the Group will continue as a going concern. In January 2017, Atlas secured a \$1.5m financing package. This loan will be repaid over a 3-year period at a 7.5% interest rate, with staged repayments from February 2018. The objective of this loan is to enable the Company to proceed with capital infrastructure investments at the Company's pearling sites designed to substantially increase capacity to operate and maintain seeded oyster stock. However, management are seeking, and will require, further funding through debt or equity raises.

Should the Group be unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. This financial report does not include any adjustments relating to the recovery and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosure that may be necessary should the Group be unable to continue as a going concern.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

3. PROFIT FOR THE HALF-YEAR	Consolidated	
	6 Months Ending	6 Months Ending
	31 Dec 2016	31 Dec 2015
	\$	\$
Sales Revenue		
Sale of goods	7,174,863	6,831,121
Other Revenue		
Interest income	28,653	20,490
Other revenues	157,042	185,179
Revenue	7,360,558	7,036,790
Other Income		
Foreign exchange gains realised	337,648	243,256
Foreign exchange gains unrealised	84,224	378,108
Gain on derivative financial instruments	575,201	-
Grant funding	40,000	40,000
R&D refund	-	334,908
Other Income	1,037,073	996,272

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

4. PROFIT BEFORE INCOME TAX FOR THE HALF-YEAR INCLUDES THE FOLLOWING SPECIFIC ITEMS	Consolidated	
	6 Months Ending 31 Dec 2016	6 Months Ending 31 Dec 2015
	\$	\$
Administration expenses from ordinary activities		
Salaries and wages	1,683,751	1,658,461
Depreciation property, plant and equipment	215,799	209,091
Operating costs	257,693	256,683
Compliance and finance	271,079	237,590
Other	626,946	481,150
	3,055,268	2,842,975
Other expenses		
Loss on foreign exchange realised	63,881	376,484
Loss on foreign exchange unrealised	257,074	1,680
Loss on financial instruments unrealised	-	97,051
Provision for employee entitlements	37,470	71,197
Loss on joint venture loan	177,240	49,908
Share option expense	12,392	28,909
Other	(7,786)	-
	540,271	625,229
Finance costs		
Interest and finance charges payable	230,839	200,681
	230,839	200,681
Net loss/(profit) on foreign currency derivatives not qualifying as hedges	(575,201)	97,051

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

5. EARNINGS PER SHARE

	31 Dec 2016 Cents	31 Dec 2015 Cents
Basic earnings/(loss) per share	0.10	0.12
Diluted earnings/(loss) per share	0.10	0.11
Earnings reconciliation		
Net profit/ (loss) used for basic earnings	423,601	487,891
After tax effect of dilutive securities	-	-
Diluted earnings	423,601	487,891
	No.	No.
Weighted average number of ordinary shares outstanding during the half-year used for calculation of basic earnings per share	420,155,665	411,388,700
Employee Options	5,500,000	34,000,000
Weighted average number of potential ordinary shares outstanding during the half-year used for calculation of diluted earnings per share	425,655,665	445,388,700

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 2016 as potential ordinary shares which may have a dilutive effect on the profit of the Group.

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ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	6 Months Ending 31 Dec 2016	12 Months Ending 30 June 2016
	\$	\$
6. INVENTORIES		
CURRENT		
Pearls	2,257,403	1,411,216
Jewellery	1,096,975	1,306,538
Jewellery obsolescence provision	(57,819)	(100,000)
Pearl Meat	3,306	128
Mother of Pearl	12,761	15,348
Farm Consumables & Fuel	376,739	284,580
Cosmetics	28,452	32,098
	<u>1,460,415</u>	<u>1,538,692</u>
	<u>3,717,817</u>	<u>2,949,908</u>
NON CURRENT		
Nuclei – at cost	109,626	199,393
TOTAL INVENTORY	<u>3,827,443</u>	<u>3,149,301</u>

	6 Months Ending 31 Dec 2016	12 Months Ending 30 June 2016
	\$	\$
7. BIOLOGICAL ASSETS		
CURRENT		
Oysters – at fair value	5,633,029	5,331,477
	<u>5,633,029</u>	<u>5,331,477</u>
NON-CURRENT		
Oysters – at fair value	12,585,176	12,118,179
	<u>12,585,176</u>	<u>12,118,179</u>
Total Biological Assets	<u>18,218,205</u>	<u>17,449,656</u>
 Quantity held within the Group operations:-		
Juvenile and mature oysters which are not seeded	1,132,861	638,977
Nucleated oysters	790,953	764,864
	<u>1,923,814</u>	<u>1,403,841</u>

During the six-month ended 31 December 2016 no significant events occurred which impacted on oyster mortalities.

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NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
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8. PROPERTY, PLANT AND EQUIPMENT

	Non – Pearling Assets		Pearling Project		Total
	Plant & equipment	Leasehold improvements	Leasehold land & buildings	Plant & equipment, vessels, vehicles	
	\$	\$	\$	\$	\$
At 30 June 2016					
- at cost	1,120,324	1,062,714	1,679,552	6,421,575	10,284,165
- accumulated depreciation	(662,405)	(518,820)	(352,219)	(4,009,905)	(5,543,349)
	457,919	543,894	1,327,333	2,411,670	4,740,816
Half-year ended 31 December 2016					
Carrying amount at beginning of period	457,919	543,894	1,327,333	2,411,670	4,740,816
Additions	14,283	-	517,321	152,691	684,295
Disposals/write-downs	-	-	-	-	-
Depreciation	(65,443)	(38,389)	(28,758)	(263,609)	(396,199)
Foreign exchange movement	87	1,344	8,851	15,846	26,128
	406,846	506,849	1,824,747	2,316,598	5,055,040
At 31 December 2016					
-at cost	1,135,419	1,065,452	2,208,072	6,616,849	11,025,792
-accumulated depreciation	(728,573)	(558,603)	(383,325)	(4,300,251)	(5,970,752)
	406,846	506,849	1,824,747	2,316,598	5,055,040

9. BORROWINGS

	31 Dec 2016	30 June 2016
	\$	\$
CURRENT		
Secured		
Bank loan	3,474,897	4,075,722
Other bank loan	158,495	110,122
Lease liabilities	-	5,172
Total secured current borrowings	3,633,392	4,191,016
Unsecured		
Other	-	-
Total current borrowings	3,633,392	4,191,016
NON CURRENT		
Secured		
Other bank loan	6,666	33,553
Lease liabilities	-	-
Total secured non-current borrowings	6,666	33,553
Total non-current borrowings	6,666	33,553

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

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10. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Fair value hierarchy

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

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December and 30 June 2016 on a recurring basis:

31 December 2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
Assets				
Derivative financial instruments	-	-	-	-
Forward foreign exchange contracts	-	321,877	-	321,877
Total Assets	-	321,877	-	321,877
Liabilities				
Derivative financial instruments	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
Total (Liabilities)	-	-	-	-

30 June 2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
	\$	\$	\$	\$
Liabilities				
Derivative financial instruments	-	-	-	-
Forward foreign exchange contracts	-	(253,325)	-	(253,325)
Total Assets (Liabilities)	-	(253,325)	-	(253,325)

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

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

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities. As at 31 December 2016 there are no level 3 related instruments in place.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
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10. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS CONT.

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

There were no transfers between the levels of the fair value hierarchy in the six months to 31 December 2016. There were also no changes made to any of the valuation techniques applied as of 30 June 2016.

(c) Fair values of other financial instruments

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. These had the following fair values as at 31 December 2016:

	31 Dec 2016 \$	31 Dec 2016 \$	30 June 2016 \$	30 June 2016 \$
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current borrowings				
Bank Loan	6,666	6,666	33,553	33,553
	6,666	6,666	33,553	33,553

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

11. SEGMENT INFORMATION

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

- (i) The segment information provided to the board of Directors for the reportable segments for the half-year ended 31 December 2016 is as follows:

31 Dec 2016	Wholesale Loose Pearl		Jewellery		Total
	Australia \$	Indonesia \$	Australia \$	Indonesia \$	
Total segment revenue	6,682,037	4,746,192	217,703	219,701	11,865,633
Inter-segment revenue	-	(4,690,770)	-	-	(4,690,770)
Revenue from external customers	6,682,037	55,422	217,703	219,701	7,174,863
Normalised EBITDA	819,965	84,804	(192,246)	(15,620)	696,903
Adjusted net operating profit/(loss) before income tax	709,599	34,689	(213,788)	(23,958)	506,542

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

11. SEGMENT INFORMATION CONT.

31 Dec 2015	Wholesale Loose Pearl		Jewellery		Total
	Australia	Indonesia	Australia	Indonesia	
	\$	\$	\$	\$	\$
Total segment revenue	6,326,114	5,059,037	246,514	247,568	11,879,233
Inter-segment revenue	-	(5,048,112)	-	-	(5,048,112)
Revenue from external customers	6,326,114	10,925	246,514	247,568	6,831,121
Normalised EBITDA	125,597	695,973	(127,809)	38,757	732,518
Adjusted net operating profit/(loss) before income tax	137,793	658,768	(151,349)	30,099	675,311
Total segment assets					
31 December 2016	4,339,534	24,361,905	501,131	890,962	30,093,532
30 June 2016	6,700,678	22,587,105	759,263	708,839	30,755,885
Total segment liabilities					
31 December 2016	(723,237)	(1,714,389)	33,263	(8,455)	(2,412,818)
30 June 2016	(984,754)	(1,728,711)	(30,846)	(11,827)	(2,756,138)

(b) Other segment information

(i) *Adjusted net operating profit*

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

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

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

	Consolidated	
	31 Dec 2016	31 Dec 2015
	\$	\$
Net operating profit / (loss) before tax	506,542	675,311
Change in fair value of biological assets	5,475	795,177
JV (loss)	(360,983)	(81,120)
Impairment expense	-	(49,908)
Foreign exchange losses	(172,851)	(378,164)
Foreign exchange gains	273,768	621,364
Gains/(loss) on derivative financial instruments	575,201	(97,051)
Other Tax	(4,215)	-
Profit/(Loss) before income tax from continuing operations	822,937	1,485,609

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

11. SEGMENT INFORMATION CONT.

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

(ii) *Segment assets*

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

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

	31 Dec 2016	30 June 2016
	\$	\$
Segment assets	30,093,532	30,755,885
Joint Venture Loans	1,033,527	1,016,456
Deferred tax assets	2,893,493	3,035,807
Total assets as per the statement of financial position	34,020,552	34,808,148

The total of non-current assets other than financial instruments and deferred tax assets located in Australia is \$811,637 (June 2016: \$951,381). The total located in Indonesia is \$17,042,416 (June 2016: \$16,268,975).

(iii) *Segment Liabilities*

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

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

	31 Dec 2016	30 June 2016
	\$	\$
Segment liabilities	2,273,847	2,756,138
Intersegment eliminations		
Unallocated:		
Current tax liabilities	-	661,111
Borrowings	3,640,058	4,224,569
Deferred tax liabilities	1,366,161	1,315,815
Other	169,144	25,871
Total liabilities as per the statement of financial position	7,449,210	8,983,504

12. CONTINGENT LIABILITIES

The company's historical tax affairs are regularly subject to audit by the Indonesian Tax Office and this process remains ongoing. There is the possibility that this review programme may result in future tax liabilities in relation to prior year tax returns. All assessments received to date have been brought to account. Currently, there are no tax years under review by the Indonesian Tax Office.

ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES

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FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

13. CONTRIBUTED EQUITY

	31 Dec 2016	30 June 2016	31 Dec 2016	30 June 2016
	No. of shares	No. of shares	\$	\$
Issued and fully paid-up capital	422,909,620	419,380,906	36,857,415	36,698,536
Ordinary Shares				
Balance at beginning of period	419,380,906	414,327,191	36,698,536	36,465,656
Shares issued ⁽¹⁾	3,528,714	5,053,715	158,879	232,880
Share transaction costs	-	-	-	-
Balance at end of period	422,909,620	419,380,906	36,857,415	36,698,536
Treasury Shares ⁽²⁾				
Balance at beginning of period	6,017,694	11,071,409		
Shares released	(1,055,556)	(5,053,715)		
Balance at end of period	4,962,138	6,017,694		

- 1) On the 28 November 2016, 2,473,158 fully paid ordinary shares were issued to past and present Directors of the Company in lieu of payment of Directors' fees, at a deemed issue price of \$0.045, in accordance with shareholder approval at the Annual General Meeting of Shareholders held on 31 October 2016.
- 2) Treasury shares are shares in Atlas Pearls and Perfumes Ltd that are held by the Atlas Pearls and Perfumes Ltd Executive Share Plan Trust for the purpose of issuing shares under the Atlas South Sea Pearl Employee share plan. During the six months to 31 December 2016, 1,055,556 shares were issued out of the trust to an employee, at a deemed issue price of \$0.045, as part of the 2015 salary sacrifice program.

14. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On the 24th Jan 2017, Atlas secured a \$1.5M financing package from a related party Mr. Tim Martin, and the Martin Family. The loan is structured over a 3-year period at a 7.5% interest rate paid quarterly with staged principal repayments starting from February 2018. The timing of the repayments of the principal are given below:

Date of Repayment	Repayment Amount \$AUD
01/02/2018	250,000
01/02/2019	250,000
30/06/2019	250,000
01/02/2020	750,000

The objective of the loan is to enable Atlas to proceed with capital infrastructure investments at pearling sites to increase the capacity to operate and maintain seeded oyster stock.

15. SUBSIDIARIES

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

**ATLAS PEARLS AND PERFUMES LTD AND ITS CONTROLLED ENTITIES
DIRECTORS' DECLARATION**

The Directors declare that the financial statements and notes set out on pages 7 to 22:

- (a) comply with Accounting Standard AASB134 "Interim Financial Reporting" and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

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

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



**G Newman
Chairman**

Perth, Western Australia
28/02/2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Atlas Pearls and Perfumes Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Atlas Pearls and Perfumes Ltd, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Atlas Pearls and Perfumes Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Atlas Pearls and Perfumes Ltd, would be in the same terms if given to the directors as at the time of this auditor's review report.

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Conclusion

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

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'Glyn O'Brien', is written over the printed name. The signature is stylized and includes a flourish at the end.

Glyn O'Brien

Director

Perth, 28 February 2017

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