



6 February 2012

The Manager
Company Announcements Office
ASX Limited
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ASX - ATP

RIGHTS ISSUE ANNOUNCEMENT, PRODUCTION UPDATE and PROFORMA OPERATING RESULTS 2012

Atlas South Sea Pearl Limited ACN 009 220 053 (the **Company**) announces that it will be undertaking a non-renounceable pro rata rights issue (**Rights Issue** or **Offer**) to holders of shares in the Company (**Shareholders**) with a registered address in Australia or New Zealand (**Eligible Shareholders**) as at 5.00 pm (AWDT) on 20th February 2012 (**Record Date**).

Pursuant to the Rights Issue, the Company will issue up to 84,034,175 fully paid ordinary shares in the capital of the Company (**New Shares**) at an issue price of \$0.05 each, to raise up to a maximum of \$4.2 million (before costs of the Offer). An offer document will be sent to Shareholders on the date detailed in the timetable below (**Offer Document**). Full details and terms of the Offer will be contained in the Offer Document.

The New Shares will be offered on the basis of 1 new share for every 1.7 fully paid ordinary shares (**Shares**) held in the capital of the Company as at the Record Date (**Entitlement**). The rights to subscribe for the New Shares in accordance with an Entitlement under the Offer (**Rights**) will be non-renounceable.

It is a condition of the Rights Issue proceeding that the Company raise a minimum of \$1,500,000. If that amount is not raised then the Rights Issue will not proceed and application money will be returned without interest.

The New Shares will be fully paid and will rank equally with the Company's existing issued Shares. The Company will make an application to the ASX for official quotation of the New Shares.

The number of issued Shares at the date of this notice and the total number of issued Shares at the close of the Offer are as follows:

- Number of Shares currently on issue and quoted on ASX: 142,858,097
- Maximum number of New Shares to be issued under the Offer: 84,034,175
- Maximum number of Shares on issue upon completion of the Offer: 226,892,272

The Directors reserve the right in accordance with the Corporations Act and ASX Listing Rule 7.2 (exception 3) to allocate any shortfall under the Rights Issue. Eligible Shareholders who apply for their full Entitlement may also apply for additional Shares in excess of their Entitlement at \$0.05 each (which will only be available where a shortfall arises). Applications for additional shares may be subject to a pro rata scale back.

If any Shortfall arising under the Rights Issue exceeds applications received for Additional Shares, the Directors reserve the right to place the remaining Shortfall with any other persons selected by them. Any remaining Shortfall will be placed no later than 3 months after the Closing Date and will be issued on the same terms as are offered to Eligible Shareholders under the Rights Issue.

Any issue of Additional Shares to a related party (including a Director) will be conditional on a resolution of Shareholders being passed to approve the issue for the purposes of Listing Rule 10.11. Further details of the terms and conditions of the Rights Issue will be set out in the Offer Booklet.

The funds raised from the Rights Issue will be used for working capital purposes in the following areas.

1. Implement the full commercialisation of Atlas' quality selection programme across all sites
2. Improve infrastructure support in the production programme
3. Ensure all key managerial and technical roles are funded
4. Expand the company's marketing activities and capitalise on emerging markets
5. Commercialise new product lines and value adding initiatives
6. General working capital

Approximately \$2.5M of these funds are to be used to undertake activities 1-3 and 6 above. The remaining \$1.5M that is being sought will be used to fund the activities in 4 and 5 above. As stated above, the Rights Issue is conditional on a minimum amount of \$1.5M being raised. If the Rights Issue does not raise the maximum amount, then funds will be applied to the areas where the highest return on capital is likely to be achieved.

Proposed timetable

It is proposed that the Rights Issue be conducted as follows:

Event	Date
Rights Issue announced via ASX	6-Feb-12
Offer Document and 708AA Notice lodged with ASX	6-Feb-12
Shares quoted on an "ex" basis	14-Feb-12
Record Date to identify Shareholders entitled to participate in issue	20-Feb-12
Offer Opens and Offer Summary and Entitlement and Acceptance Forms despatched to Eligible Shareholders	24-Feb-12
Closing Date for acceptance and payment	16-Mar-12
New Shares quoted on Deferred Settlement basis	19-Mar-12
Notify of shortfall in acceptances	21-Mar-12
Allotment Date for allotment of New Shares under the Offer	22-Mar-12
Despatch of holding statements and end of Deferred Settlement Trading including 708AA Notice	23-Mar-12
Commencement of trading of New Shares	26-Mar-12

This timetable is indicative only and subject to change. Subject to the Corporations Act 2001 (Cth) and the Listing Rules, the Directors of the Company reserve the right to vary these dates, including the Closing Date, without prior notice. The Directors also reserve the right not to proceed with the whole or part of the Offer at any time prior to the allotment. In that event, application money will be returned without interest.

Full details of the terms and conditions of the Rights Issue will be contained in the Offer Document to be lodged with the ASX and to be despatched to Shareholders in accordance with the timetable set out above.

GENERAL COMPANY UPDATE

In December 2011, the Company reported a weakening demand for its pearls and as a result the Company would not achieve its profit projection made in October 2011 and that revenue would be lower than budgeted income. As a supplier of pearls at the bottom of the supply chain, Atlas is vulnerable to weakening demand for pearls, falling pearl prices and trading strategies of pearl traders who seek to profit in volatile markets. This vulnerability is exasperated in circumstances where Atlas does not have sufficient cash reserves to be strategic in the points in time in which it sells into the market. A steady demand and stable price points for pearls through the middle of 2011 evaporated in the last quarter. Atlas's financial position was further affected by a failure to achieve an outcome in a pending tax issue which was expected to result in a substantial tax refund to the company.

FINANCIAL INFORMATION

Pro-Forma Balance Sheet

Based on the company's unaudited management accounts dated 31 December 2011, a pro-forma Balance Sheet post rights issue assuming **full take-up** would be as follows:

AUD	Balance Sheet as at 31-Dec-11	Rights Issue	Pro-Forma post Rights Issue
Current Assets -			
Cash and cash equivalents	\$140,563	\$4,201,709	\$4,342,272
Trade and other receivables	\$1,142,602		\$1,142,602
Inventories	\$6,033,330		\$6,033,330
Biological Assets	\$6,771,528		\$6,771,528
Total Current Assets	\$14,088,023	\$4,201,700	\$18,289,732
Non-Current Assets -			
Trade and other receivables	\$27,702		\$27,702
Inventories	\$264,865		\$264,865
Biological assets	\$10,679,185		\$10,679,185
Property, plant & equipment	\$3,951,374		\$3,951,374
Deferred tax asset	\$1,310,265		\$1,310,265
Total Non-Current Asset	\$16,233,391	\$-	\$16,233,391
TOTAL ASSETS	\$30,321,414	\$4,201,709	\$34,523,123
Current Liabilities -			
Trade and other payables	(\$1,159,019)		(\$1,159,018)
Borrowings	(\$5,718,552)		(\$5,718,552)
Current tax liability	(\$127,283)		(\$127,283)
Other	(\$917,497)		(\$917,497)
Total Current Liabilities	(\$7,922,351)	\$-	(\$7,922,350)
Non-Current Liabilities -			
Deferred tax liability	(\$2,058,305)		(\$2,058,305)
Long term provisions	(\$23,099)		(\$23,099)
Total Non-Current Liabilities	(\$2,081,704)	\$-	(\$2,081,704)
TOTAL LIABILITIES	(\$10,004,055)	\$-	(\$10,004,054)
NET ASSETS	\$20,317,360	\$4,201,709	\$24,519,069
Equity -			
Issued capital	(\$23,287,554)	(\$4,201,709)	(\$27,489,263)
Reserves	\$6,661,975		\$6,661,975
Retained profits	(\$3,691,781)		(\$3,691,781)
TOTAL EQUITY	(\$20,317,360)	(\$4,201,709)	(\$24,519,069)

A pro-forma Balance Sheet post the rights issue assuming that the minimum take-up occurs would be as follows:

AUD	Balance Sheet as at 31-Dec-11	Rights Issue	Pro-Forma post Rights Issue
Current Assets -			
Cash and cash equivalents	\$140,563	\$1,500,000	\$1,640,563
Trade and other receivables	\$1,142,602		\$1,142,602
Inventories	\$6,033,330		\$6,033,330
Biological Assets	\$6,771,528		\$6,771,528
Total Current Assets	\$14,088,023	\$1,500,000	\$15,588,023
Non-Current Assets -			
Trade and other receivables	\$27,702		\$27,702
Inventories	\$264,865		\$264,865
Biological assets	\$10,679,185		\$10,679,185
Property, plant & equipment	\$3,951,374		\$3,951,374
Deferred tax asset	\$1,310,265		\$1,310,265
Total Non-Current Asset	\$16,233,391	\$-	\$16,233,391
TOTAL ASSETS	\$30,321,414	\$1,500,000	\$31,821,414
Current Liabilities -			
Trade and other payables	(\$1,159,019)		(\$1,159,018)
Borrowings	(\$5,718,552)		(\$5,718,552)
Current tax liability	(\$127,283)		(\$127,283)
Other	(\$917,497)		(\$917,497)
Total Current Liabilities	(\$7,922,351)	\$-	(\$7,922,350)
Non-Current Liabilities -			
Deferred tax liability	(\$2,058,305)		(\$2,058,305)
Long term provisions	(\$23,099)		(\$23,099)
Total Non-Current Liabilities	(\$2,081,704)	\$-	(\$2,081,704)
TOTAL LIABILITIES	(\$10,004,055)	\$-	(\$10,004,054)
NET ASSETS	\$20,317,360	\$1,500,000	\$21,817,360
Equity -			
Issued capital	(\$23,287,554)	(\$1,500,000)	(\$24,787,554)
Reserves	\$6,661,975		\$6,661,975
Retained profits	(\$3,691,781)		(\$3,691,781)
TOTAL EQUITY	(\$20,317,360)	(\$1,500,000)	(\$21,817,360)

This information is prepared by adopting the Company's management accounts for the balance date as at 31 December 2011, which are unaudited. The above Rights Issue adjustments do not include the cost of raising capital which is estimated to be approximately \$50,000.

Financial Results

A summary of operating results for the last four years is as follows:

AUD	2011 [F] ~	2010	2009	2008
Pearl Sales	\$10,516,185	\$8,571,306	\$5,917,532	\$11,819,684
No. of pearls sold	272,111	311,153	156,966	167,200
Unit value per pearl	\$38.65	\$18.87	\$37.70	\$70.69
Jewellery Sales	\$1,308,553	\$967,308	\$722,220	\$794,977

~ Information based off unaudited management accounts

Based on the unaudited management accounts, the Company will achieved a normalised earnings before interest, tax, depreciation and amortisation of between \$1.3-1.6M which is in line with guidance provided in December 2011.

The Company intends to release its unaudited preliminary final results for the full year ended 31st December 2011 on 24th February. As the above financial information remains unaudited at this time, it is possible the final results will differ from these numbers. Shareholders are therefore encouraged to review the preliminary final results at the time of making an assessment as to whether to participate in the Rights Issue.

Cost Reduction

A full review of current costs has been undertaken by the new management. From a combination of staff retrenchments, general operational expenditure cuts and a reorganisation of capital expenditure, cash flow savings in the order of \$1.5-2.0M in 2012 have been identified and are currently being implemented. Cost savings have been targeted at recurring costs associated with administrative expenditure and eliminating excess in poorer performing areas of the business. The senior management restructure and acceptance from other senior managers to participate in cost savings measures has contributed to these cash flow savings. Further efficiencies are being reviewed and implemented and will be brought to account through the current operating year.

Banking Arrangements

The company’s bank has provided ongoing support for the current debt facility subject to various profit and balance sheet covenants. This is a three year facility which is reviewed and renewed by the Company’s bank annually subject to compliance with the conditions of the facility. This facility was last reviewed and renewed by the bank in October 2011.

In the event that pearl prices continue at or fall below levels that were achieved from sales made by the Company in the last three months, there is a potential that the covenants relating to the Company’s normalised EBITDA could be breached. The Company is in discussion with the bank on this matter at present. The Company is currently in compliance with the covenants of the loan facility.

Pearl Production

The GFC of 2008/09 resulted in severe operational funding restrictions including a lower number of oyster seedings and a consequently a stalling of growth in pearl output. Oysters from this period were all harvested in 2011 with a total pearl harvest that was significantly less than 2010 but with improved quality and sales price due to increased efforts towards technical excellence.

As previously announced, expansion of the pearl farming operations of the Atlas Group grew in 2010 and continued in 2011 with a substantial increase in the total number of oysters and water based infrastructure. The record levels of seeding in 2010 and 2011 and various other key performance indicators demonstrate to the Board’s satisfaction that Atlas has a strong production capability together with a long term trend of improved quality that will compliment its growing biological assets (oysters). Substantial capital and management resources have been invested in our expanding production model resulting in the seeding program increasing by 62% between 2009 and 2011.

The table below is a record of oyster seeding levels for the last four years:

	2011	2010	2009	2008
Total oysters seeded	619,000	466,000	381,000	430,000

Seeding now takes place at both the Bali and Alor farm sites. The expanded program is carefully managed and results company-wide are at our established commercial benchmarks. A review into site by site activities at the newly acquired pearling operations in East Indonesia is underway to streamline production and maximise efficiency based on the successful Bali/Papua model.

The increased seeding of oysters in the last two years will be expected to result in increased pearl production and a focus on quality improvement will position the Company to increase revenue as and when the global pearl markets improve. In the current market, further growth in seeding will be moderated with expenditure curbed to maintain current seeding levels.

Oyster production

The company now boasts two hatchery facilities that are owned and managed solely by Atlas. These facilities are critical in supporting the expansion of the pearling business whilst at the same time providing risk mitigation through geographical diversity. The company intends to develop a third hatchery facility within the next 12 months.

Retail

The company's jewellery retail distribution through its six outlets in the popular tourist precincts in Bali continues to show year on year growth. Sales revenue for the retail operation has grown from \$722,000 in 2009 to \$1,309,000 in 2011 (81% growth). A broad cross section of jewellery with a wide price range has ensured that customer demand has remained strong, despite a change in buying patterns to lower value items. In October, Atlas opened its first flagship retail outlet in Perth under the Perl'eco brand. Jewellery development continues and wholesale distribution opportunities are being investigated at present.

By-product development

In April 2011, Atlas invested \$25,000 into the acquisition of a 3 year research and development program of Mother of Pearl extraction and downstream processing of pearl powder for use in the luxury beauty and wellness sector (cosmetics, nutraceuticals and perfumes). Steps toward commercialisation are underway with potential partners identified in both New York and Paris.

Mother of Pearl (MOP) is the shell of the pearl oyster. Developments by the Company in downstream processing for use in the cosmetics industry has resulted in the raw material sales value of \$2.50 per kg being dramatically increased to \$18 per kg. This has so far been on a relatively small scale (5,000kg sold to date); however, the Company is focusing on a wider commercialisation of the process.

A novel technique to create a natural unique molecular level signature (a nacre extract) for Atlas pearls is also being investigated. If successful, this technique could revolutionise the ability to guarantee the provenance of our pearls for consumers.

The company is committed to greatly improving the market for by-product materials and believes that in the short to medium term downstream processing and sales of by-products has the potential to become a major income source for the group.

Research and Development

Commercialisation of results from our genetic improvement and selective breeding program are well underway. The clearest indication of the value of this work has been the reduced cycle time by 2-4 months for an average oyster to reach maturity and produce a pearl. Over the next two years this program will reach full scale across our hatchery ventures. If successful, Atlas will be positioned to

produce a better pearl in less time than the traditional approach to pearl oyster breeding and aquaculture resulting in improved investment return and production costs.

Pearling industry

In 2010, Atlas started its own wholesale pearl sales division and it has successfully established an international client base. Without this wide range of customers this recent downturn in price and demand would have had a much greater impact on Atlas. This very significant change to our distribution allowed Atlas to capitalise on the improving market conditions that prevailed in late 2010 and 2011. Unfortunately, global market conditions deteriorated in the last quarter of 2011 which directly affected demand for pearls. This in turn caused downward pressure on pearl prices and volume of sales. Due to a lack of reserve capital Atlas was forced to sell into this depressed market in the last quarter of 2011 at substantial discounts. It is the intention of the Board to use the funds from the proposed Rights Issue to position the Company to manage this risk in the future.

Atlas has positioned itself as a high quality producer in a low cost environment. This competitive advantage is now more important than at any point in the Company's history. The Company continues to explore all opportunities for production and value adding to ensure we maximise our capacity to keep cash flow and profits during these difficult economic times. Atlas has remained in a strong market position at a time when many smaller producers in Indonesia and Australia have sold their assets resulting in further market consolidation. In a smaller production pool Atlas continues to become a more significant and important player.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Birkbeck', with a large, stylized flourish extending from the bottom left.

Stephen Birkbeck
Chairman