

# Arafura Pearl Project 2009 (MIS) Project Summary

Arafura Pearls Holdings Ltd (ASX:APB)

ABN 88 092 266 067

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# Australian south sea pearling industry

# Australian Industry

## Production

- Australian South Sea pearling industry produces world's best quality & most valuable cultured pearls
- 2nd largest aquaculture industry in Australia by export value (AU\$314 mill) ABARE 2008
- Accounts for less than 1% of the world's total cultivated pearls by volume, but 30% of world production by value
- Production quota controlled
- Historically dominated by large, wealthy private groups
- Paspaley and Arafura now control approx 80% of Aust quota



*Pearl being harvested*

# Australian Industry

## ■ Competitive advantages

- Size & colour of product, from the Australian *Pinctada maxima* shell
- Pristine marine environment of Northern Australia
- Ability to re-operate shell
- Access to infrastructure and skilled workforce
- Stable political environment

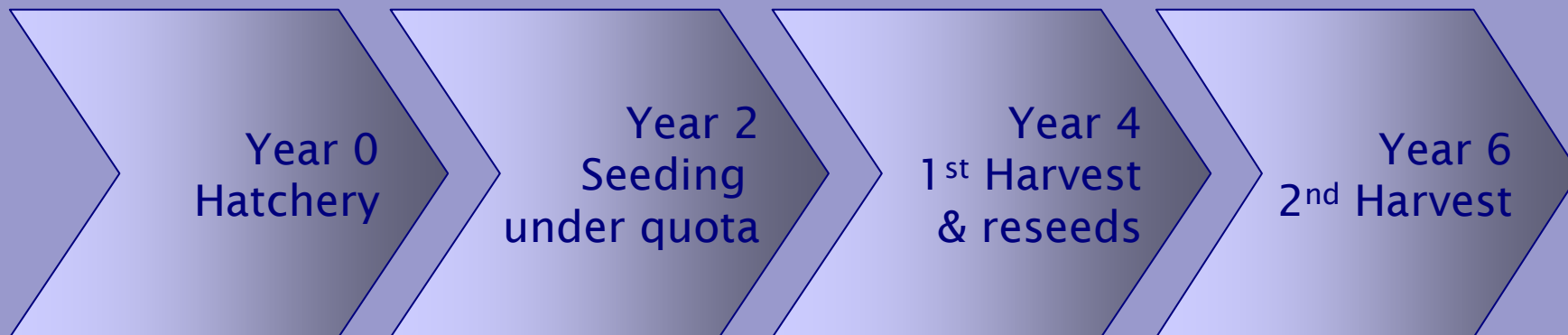
## ■ Barriers to entry

- Strict quota system (restriction on production)
- 6-8 year lead time to establish hatchery operation
- Lack of available sites
- Requirement for highly specialized farm management



*Arafura's land base in Elizabeth Bay, North East Arnhem Land, NT*

# Production process



<b>Years 0 – 2</b>	<b>Hatchery produce shell, grown out shell in ocean</b>
<b>Year 2</b>	<b>Seed shell (June – Sept) under quota system</b>
<b>Years 2 – 4</b>	<b>Shell husbandry</b>
<b>Years 4 - 5</b>	<b>1<sup>st</sup> Pearl Harvest (July – August)</b> <b>Oysters which produce commercial pearl are re-seeded</b> <b>Income from 1<sup>st</sup> harvest sales</b>
<b>Years 6 – 7</b>	<b>2<sup>nd</sup> Pearl Harvest (July – August)</b> <b>Income from 2<sup>nd</sup> harvest sales</b> <b>Project comes to end</b>

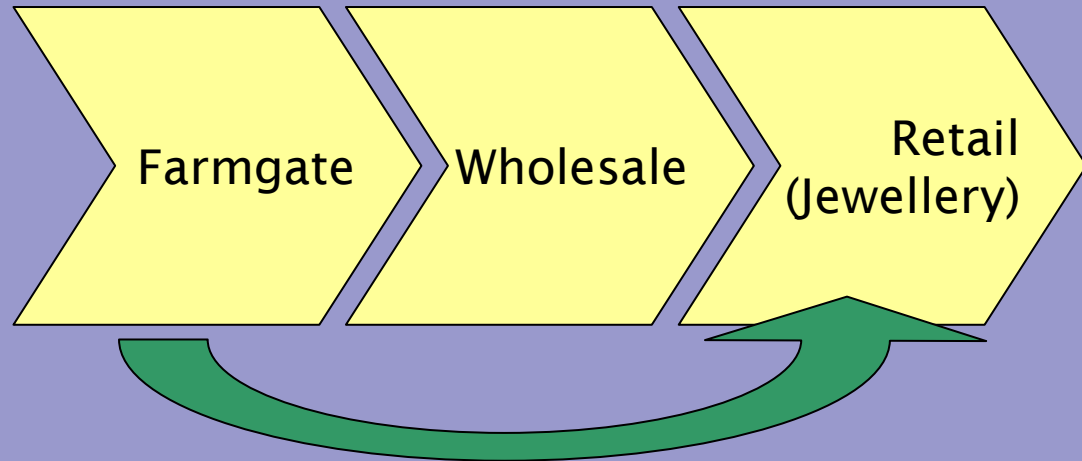
# Production process



# Sales & Marketing



*Farm grading Arafura's harvest*



**Mark up 3 – 5x**

- Pearls are distributed on a wholesale basis, via auction and private negotiation
- Primary use for pearls is in jewellery - strands, necklaces, earrings and rings
- Main distributors for Australian production have been Paspaley and Pearlautore
- Arafura becoming “third force”
- Largely export market
- Historically, Japan been largest consumer of Australian pearls
- Significant emerging markets are also participating in the export volume, including China, India, Dubai and Eastern Europe





# Arafura Pearl Project 2009

# Project Structure

- Leverage off Manager's existing project and become a pearl farmer (Grower)
- Investment 100% tax deductible as per product ruling 2009/16
- 1 Project interest = approx 100 seeded shell at year 2
- Cost = \$6,300 per interest (plus GST) (min of 2 project interests)



*A grower inspecting his shell*

# Project structure

- Relatively short project life of approx 6.5 years with cashflows in years 5 & 7
- Strong potential commercial returns supported by independent research from leading agri research house Adviser Edge (awarded the project 4 stars out of 5 in 2009)
- Ongoing mgmt fees deferred and off-set against future harvest income strongly aligning management interests with Growers
- Arafura provides shell guarantee for first 18 months of project
- Shell insurance coverage after this period
- Finance available through 3<sup>rd</sup> party facility, or instalment payment plan available
- This an exclusive project with interests limited by quota

# Risks

- Production (yields)
  - Like all agribusiness, pearl production is a risk which requires careful management
  - Mitigated by shell guarantee & insurance
  - Mitigated by state of the art equipment, experienced management team and production history, different sites over large lease area
  - Land and sea infrastructure built to reduce impact of any cyclonic activity
- Price
  - Pearl prices: coming off low point in price cycle, see more upside than downside
  - Quota system caps production and underpins commodity price
  - Foreign exchange exposure (JPY/AUD) to be actively managed
- Local competition
  - Quota system creates barrier to entry
  - Also high barriers to entry through high capex. requirements & long lead time to first harvest
- Management
  - Arafura has a 9 year + history & net assets of >\$46m
  - ASX listed, low debt levels



# Manager & existing operation

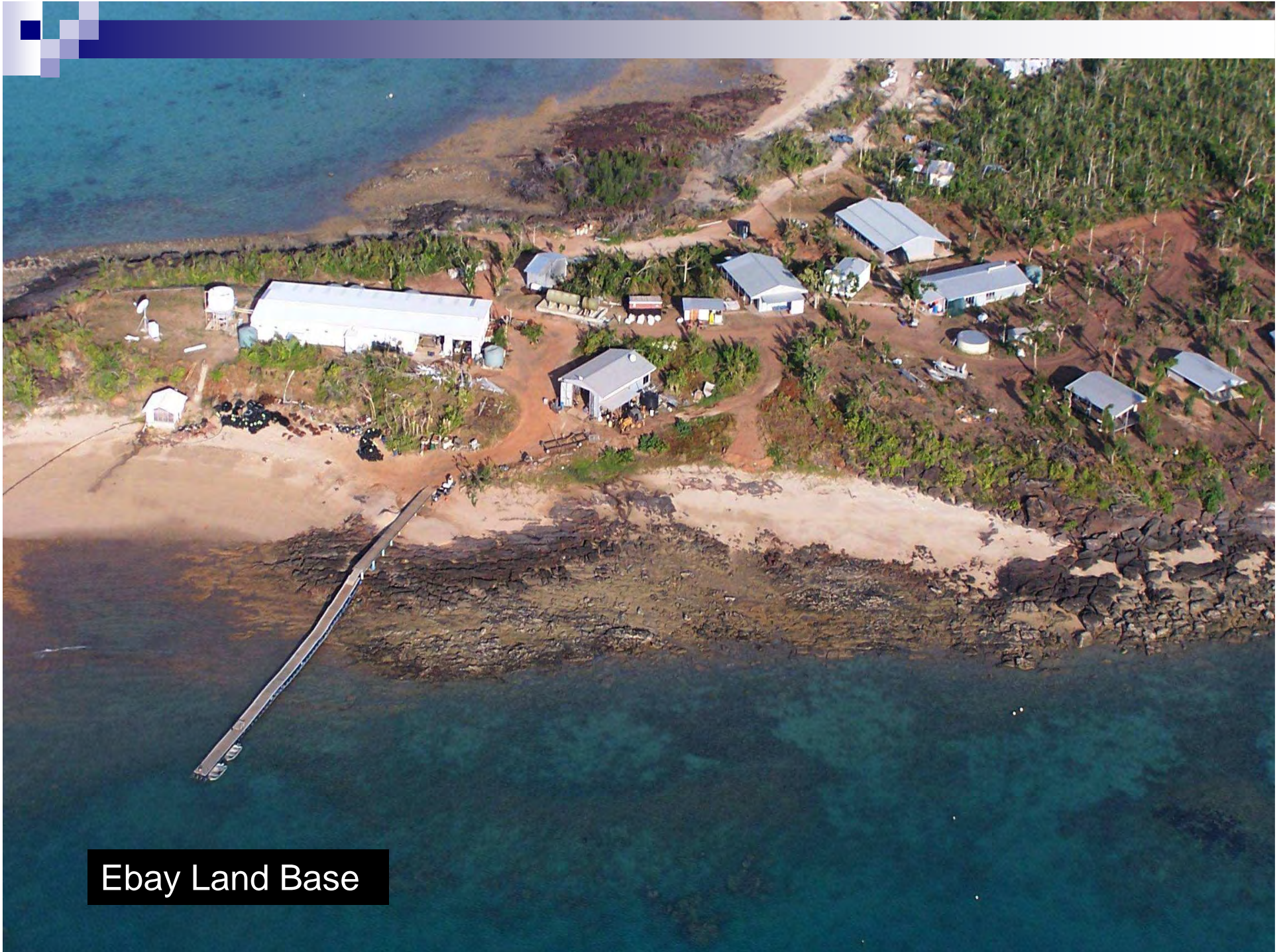
## *Arafura Operations*



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Ebay Land Base



# Manager

- Arafura is Australia's 2<sup>rd</sup> largest south sea pearl farmer by access to quota
- Has a 20 year sea & land area lease ratified by the NLC over an area in excess of 600 square km's in north-west Arnhem Land, NT
- Also JV'd into pearling operation at Beagle Bay in WA
- 9yrs + of operating history, been harvesting pearls since 2001 (8 annual company harvests)
- \$46mill+ net assets, listed on ASX (code: APB)
- NT farm approx 50 people, WA farm approx 20 people, Perth corp office 7 people, Darwin Ops office 3
- Significant farm infrastructure including land bases, state of the art hatchery, boats, long line systems etc

# Board and Management

- **Mark Ceglinski (Non-executive Chairman)**

Former Director of Corporate Finance at Bell Potter Securities, has a wealth of experience in commercial dealings and capital markets.

- **Andrew M. R. Hewitt (Founder & CEO)**

Former senior tax partner of EY's and founding partner of Barrington Partners, Chartered Accountants, has been CEO of Arafura for past 6 years and involved in the industry over 18 years

- **Christopher J. Cleveland (Executive Director)**

One of the pre-eminent pearling industry figures with a career spanning approximately 25 years having been General Manager of Pearling for Australia's two largest South Sea Pearl producers (Paspaley Pearls & MG Kailis "Broome Pearls")

- **Jeffery A. S. Mews (Non-Executive Director)**

Has been a Director of a number of ASX listed entities & former senior tax partner of PWC.

Part of Arafura's 2007 pearl harvest



# So why Australian South Sea pearls?

- High value/low volume luxury product - Australian South Sea pearls most prestigious and valuable pearls in the world
- Lucrative and mature industry – Australia's second largest fisheries export product by value (ABARE, 2008)
- High barriers to entry - quota system enforced by WA and NT fisheries
- Competitive advantages over rest of world production
- No water rights and rainfall considerations
- Sales & marketing – supply controlled by quota & demand outlook positive as affluence continues to grow in emerging markets

# And why Arafura's Project?

- Only project available giving investors a tax effective opportunity to participate in this industry
- Investment 100% deductible to be supported by product ruling
- Leading independent agribusiness research house, Adviser Edge awarded project strong 4 star rating (out of 5)
- Relatively short project life of approx 6.5 year (cashflows in years 5 & 7)
- Arafura Pearls as manager: -
  - Listed on ASX
  - Net assets > \$46 mill
  - Second largest quota holder in Australia
  - Multiple farm sites across NT & WA
  - Strong management expertise including former senior Paspaley and Kailis management
  - Operational for 9 years+