



Arafura Pearl Projects Grower Update **SPRING 2009**

Welcome to the latest update on Arafura Pearls' managed investment schemes (MIS), the Arafura Pearl Projects.

The RE and Project Manager, Arafura Pearls Holdings Limited (Arafura Pearls), is Australia's second largest vertically integrated south sea pearl producer after Paspaley Pearls, and only ASX listed Australian pearl farmer (ASX code: APB).

Arafura Pearls has established an MIS each year since 2005 giving investors the opportunity to leverage off its operations which the company has been developing for nearly a decade. The schemes have played a valuable role in assisting Arafura's expansion, however with the company's own production coming on line, these annual new offerings are expected to be scaled back or finished with altogether going forward after 2010.

Project Structure

It is worth reminding Growers of the typical project structure to understand the stage their project is at:



Years 0 - 2
Grow Shell

Selection of suitable juvenile spat and growout for two years until the spat are a suitable size for seeding. Shell guarantee for first 18 months provided by RE.



Years 2 - 4
Seed and Husband

The oyster shell are seeded two years after commencement and the shell are regularly maintained over the following two years.



Years 4 - 6
1st Harvest and Re-Seed

The first harvest for the project occurs four years after commencement. Suitable shell are re-seeded, and the shell continue to be maintained. Income from the first project harvest is distributed to growers.



Year 7
2nd Harvest and Project End

The second and final harvest for the project occurs. Income from the final harvest is distributed to growers and the project concludes.

Farm Operations

It's exciting times at Arafura as its own operations mature and the schemes develop in line with expectations.

The calendar 2009 harvest and operations period recently completed was the company's largest to date. Arafura harvested approximately 80,000 pearls, over three (3) times its 2008 harvest. Approx 10% of these pearls relate to Arafura's first MIS in 2005 also in line with expectations. Arafura performed 190,000 operations including seeding the 2007 project shell.

Scheme independent expert, Serena Sanders, recently updated her report for inclusion in the 2010 project PDS, and made the following observations about the 2009 harvest (see 2010 Project PDS for full report):

Information pertaining to the quality of the recent commercial pearl harvest of 2009 was provided by the Company and is consistent with the variability expected for individual technicians, husbandry methods and site locations.

Analysis of 2009 harvest results to date is based on results provided by the Arafura grading team, and the results show:

- *No significant change to total saleable product at 81% (includes undersize)*
- *Increase in sized saleable product at Elizabeth Bay from 70% to 75%*
- *Overall Weight per pearl has increased significantly due to the inclusion of the Beagle Bay harvest and is now in line with industry standards*
- *Decrease in low value shape profile due to the removal of higher value semi baroque shapes from the lower value baroque*
- *High value shape profile remains good at over 50% in the round, drop and button shapes*
- *Undersize remains at 10% of harvest*

Pearl Sales and Distribution

Another significant milestone for the Company this year has been the development of its sales and distribution capability. Arafura recruited Mr Tim Jones who had been the wholesale Sales and Distribution Manager for Kailis Pearls for several years and prior to this was a diamond buyer for DeBeers. By vertically integrating, and down-streaming, Arafura is in a position to add significant margins to the wholesale pearl prices it achieves for both project and company production.

Like most markets, the world pearl market was significantly affected during late 2008 and early calendar 2009 as producers,

wholesalers and consumers grappled with the global economic crisis. Since then the pearl market has been firming, particularly for better quality goods, and in the Chinese and Japanese markets. Producers, like Arafura, who were able to get through this turbulent period are well placed to take advantage of the recovery over the coming economic cycle.

Arafura Pearls has sold nearly \$3 million in pearls over the past 5 - 6 weeks at above internal company valuation. The company plans to make a distribution to 2005 growers later on this year.

Arafura Pearl Project 2010

The Company's annual MIS has opened early this year to allow growers to take advantage of the 'extra deduction' available via the investment allowance.

Eligible Growers who subscribe before **31 December 2009** are entitled to **a tax deduction of 143% of their investment** as set out in ATO product ruling 2009/55. Subscriptions made after this date will revert back to the usual 100% deductibility.

Contact Arafura Pearls head office on (08) 9382 4818 or see our website at <http://www.arafurapearls.com.au/content.asp?CID=83> for more details.

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