Arasor International Limited

ABN 29 119 999 441

Annual Financial Report

for the year ended 31 December 2008

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Appendix 4E Requirements

Results for announcement to the market	2008 $A'000	2007 $A'000		Percentage change
Revenues from continuing activities	18,187	25,135	down	(28)%
Loss from ordinary activities after tax attributable to the members (including discontinued operations)	144,335	14,292	up	(910)%
Loss for the period attributable to members (including discontinued operations)	144,335	14,292	up	(910)%

Dividends (distributions)

No dividend have been paid during the financial year ended 31 December 2008

The directors have not proposed a dividend for the year end 31 December 2008

Net Tangible Assets Per Security - cents	($0.28)	$ 0.37

Please note the revenues listed above include only continued operations. Due to the fact the Company's US operations have been classed as discontinued in December 2008, the comparative revenue numbers have been modified to exclude the Company's US operations. Please refer to note 33 for more details.

Corporate Information

This annual report covers both Arasor International Ltd (ABN 29 119 999 441) as an individual entity and the consolidated entity comprising Arasor International Ltd and its subsidiaries.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 10.

Directors

Dr Simon Cao, Chairman	
Dr Larry Marshall, Executive Director	(Resigned 21 October 2008)
Mr George SyCip, Non-Executive Director	
Mr Parviz Tayebati, Non-Executive Director	(Resigned 28 March 2008)
Mr Anthony Surtees, Non-Executive Director	(Resigned 30 July 2008)
Mr Ian Neal, Non-Executive Director	(Resigned 15 July 2008)
Mr Laurie Kan, Non-Executive Director	(Resigned 17 December 2008)
Mr Zhu Xin Kun, Non-Executive Director	(Resigned 17 December 2008)
Mr Simon Eckersley, Non-Executive Director	(Resigned 15 May 2008)
Mr Edward Li, Non-Executive Director	(Appointed 16 September 2008)

Mr Reginald Bancroft, Non-Executive Director and Company Secretary, (Appointed 17 September 2008)

Company Secretary

Mr Donald Stephens (Resigned 16 February 2009)

Registered Office

C/- HLB Mann Judd (SA) Pty Ltd
82 Fullarton Road
NORWOOD SA 5067

Principal place of business

C/- HLB Mann Judd (SA) Pty Ltd
82 Fullarton Road
NORWOOD SA 5067

Share Register

Computershare Investor Securities Pty Ltd
Level 5, 115 Grenfell Street
ADELAIDE SA 5000

Legal Advisors

O'loughlins Lawyers
Level 2, 99 Frome Street
ADELAIDE SA 5000

Auditors

Grant Thornton South Australian Partnership
Chartered Accountants
Level 1, 67 Greenhill Road
WAYVILLE SA 5034

Directors' report

Your directors submit their report for the year ended 31 December 2008.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Simon Cao, PhD (Chairman and Chief Executive Officer) Resigned 23 April 2010

Simon Cao is the Executive Chairman of Arasor and has more than 20 years experience in optics, communications and signal processing. Prior to co-founding Arasor, Simon was a founder of Avanex Corporation and served as Chief Technology Officer, Senior Vice President of Business Development and a member of the board of directors. Prior to Avanex Corporation, Simon was a founder of Oplink Communications Inc. and served as Vice President of Sales and Marketing and established the company's wavelength division multiplexing (WDM) product line. Over the span of his career, Simon has been directly responsible for the invention and commercialisation of fibre-optic products such as the fiber amplifier, WDM transmission and >10Gb/s high-speed optical transmission. In 1999, Forbes named Dr Cao the "Godfather" of WDM technology. Simon is also the author of 'Cao's Law', the optical corollary of Moore's Law in electronics, which states that WDM will spread more and more finer and finer channels of light, each using less and less power, across an optical fibre. Earlier in his career, Simon was also one of the first employees of E-Tek Dynamics Inc. Dr Cao holds PhD and M.S. degrees in both electrical engineering and physics from the University of Southern California ("USC"). He also chairs the research committee on the board of USC's engineering school and holds 38 U.S. and international patents with an additional 64 patents pending.

Larry Marshall, PhD (Non-Executive Director) Resigned 21 October 2008

Dr. Larry R Marshall is Managing Director at Southern Cross Ventures, an early-stage venture capital firm based in Silicon Valley & Sydney, focused on growing Australian technology companies on the global stage. Dr Marshall previously served as Managing Director of Arasor where he completed the company's IPO. He now serves on the board of Southern Cross Venture Partners. Dr Marshall has founded 6 successful companies over the past 20 years, in biotechnology, photonics, and semiconductors; driving two of them to successful IPOs, and 4 to high-return trade sales. Before that he was Chairman of AOC, and of Intersymbol, an Intel Capital company, which he successfully sold to Kodeos, joined Kodeos board, and recently sold the company to Finisar (NASDAQ: FNSR). He was previously CEO and co-founder of Translucent, developing optical gain in Silicon for interconnects, which was acquired by Silex (ASX:SLX) after a successful partnership with a large US public semiconductor corporation. Prior to Translucent, he was CEO and founder of Lightbit Corporation manufacturing unique optical processors for Telecom Regenerators and Biotechnology chips which merged with Arasor Corporation in 2004. Prior to Lightbit, Larry was Vice President of Iridex (NASDAQ:IRIX) which completed an initial public offering on the NASDAQ in February 1996, and co-founded spin-offs Iriderm and Iridex OEM Group. He was CEO and founder of Light Solutions where he rolled out the first visible semiconductor lasers and formed Iridex.

Directors' report

Prior to Light Solutions he ran Business Development, and formerly Technical Programs at Fibertek, where he rolled out the first 1540nm parametric laser. He holds 20 patents protecting numerous commercial products, and has over 100 publications and presentations. He received a prestigious Federation Fellowship, chaired Advanced Solid State Photonics, sits on the Advisory Board of Laser Focus World and holds a Board position at AOC. Larry was born in Sydney Australia, and received his BS Honors from Macquarie University (Sydney), and PhD from the Commonwealth Centre of Excellence.

George SyCip, MBA (Non-Executive Director)

George SyCip is President of Halanna Management Corporation and a founder and principal in Galaxaco China Group LLC. Mr SyCip advises a variety of companies in their cross-border endeavours between the US/Europe and Asia. He also sits on several corporate boards including: Bank of the Orient in San Francisco; Beneficial-PNB Life Insurance Company in the Philippines; MacroAsia Corporation; Medtecs International Corporation Limited, Paxys, Inc. in the Philippines; and is a board member of the International Institute for Rural Reconstruction. Prior to setting up his own offices, Mr SyCip had a career in banking and currently serves as a board member of the Stanford Institute for International Studies, Give2Asia and the California Asia Business Council. He has also served as Commissioner for the City and County of San Francisco's Social Services Department. Mr SyCip was born in the Philippines and received his A.B. in International Relations/Economics in 1978 from Stanford University and his MBA from Harvard.

Parviz Tayebati, PhD (Non-Executive Director) Resigned 28 March 2008

Dr Parviz Tayebati is the founder of Camros Capital LLC, a privately held venture capital fund specializing in the IT sector. Before founding Camros, Dr Tayebati was the Chief Executive Officer and chairman of the board and a co-founder of AZNA LLC which was sold to Finisar Corporation in March 2007. Before co-founding AZNA LLC in July 2002 he was the president of the CoreTek Inc. division of Nortel Networks Corporation and Vice President of business development for the optical component division. Parviz founded CoreTek Inc. in 1993 after four years as senior engineer at Foster-Miller Inc. a Waltham, MA Research and Engineering company. During his tenure at CoreTek Inc., he leveraged the Small Business Innovation Research ("SBIR") program to develop a number of photonics technologies including high-speed image recognition systems and Micro-Electro-Mechanical Systems ("MEMs") based fiber optic components for the optical networking market and positioned the company as a top player in the strategically critical tunable laser market. In early 2000 he led the acquisition of CoreTek Inc. by Nortel Networks Corporation and stayed with Nortel Networks Corporation until March 2002. Parviz is an investor in a number of start-up companies and serves on the Board of Counsellors at the University of Southern California. He has authored numerous publications in the field of optoelectronics and has over 75 issued or pending patents. He has a Masters degree in theoretical Physics from the University of Cambridge, England and a PhD in Physics from the University of Southern California. He was a member of the Company's nomination and remuneration committee before his resignation in March 2008.

Directors' report

Anthony Surtees (Non-Executive Director) Resigned 30 July 2008

Anthony Surtees is a Director and Principal of the Santa Clara Group Pty Ltd, a Silicon Valley and Australian based consulting and investment firm and Chief Executive Officer of Prime Digitalworks, part of the Prime Media Group. Prior to joining the Santa Clara Group Pty Ltd, Tony was Chief Executive Officer of emaimai.com, and transformed the Chinese language on-line auction site into an international mobile payment (m-commerce) service, utilising existing assets and technology delivering a new digital verification service for wireless payments. Prior to emaimai.com, Tony was US Vice President and General Manager of Yahoo Inc.'s Commerce Group in Santa Clara, CA. While at Yahoo Inc. Tony built Yahoo's commerce group into one of the world's leading personal finance, shopping and classifieds portal sites. Prior to this, he was the principal of a privately held telecommunications group and a marketing manager with Citibank Australia and AGC a division of Westpac Limited. Tony has also been the past New South Wales State President of the Australian Marketing Institute and is a regular professional and guest public speaker in the United States, Asia and Australia addressing numerous investment and industry forums and co-authored an e-commerce marketing text with Seth Godin. Tony holds a Bachelor of Commerce from University of New South Wales and a M.S. from the Graduate School of Business, Stanford University. He was a research scientist at University of Technology Sydney on the Australasian Building Construction Database project. Tony is also an active committee member of Stanford Australia Alumni, a guest lecturer for The Australian Film Radio and Television School, Laboratory of Advanced Media Production and an occasional speaker at Macquarie University Graduate School of Management. He was a member of the Company's risk and compliance committee before his resignation in July 2008.

Ian Neal (Non-Executive Director) Resigned 15 July 2008

Ian Neal is a principal of Management Abroad Pty Limited. He is a Chairman for The Executive Connection and consults on business strategy and implementation from a perspective of maximising shareholder value. Prior to Management Abroad, Ian was a co-founder and Managing Director of Nanyang Ventures Pty Limited, which had a total of $140 million under management, invested in 27 companies across a range of industries from high technology to advanced manufacturing. Companies backed by Nanyang ranged from start up entities to those up to $50 million in revenue.

Mr Neal's prior professional background is in financial markets, commencing as an equities analyst and moving through various banking positions until establishing Nanyang in 1993 with his partners. Ian is a Senior Fellow of the Financial Services Institute of Australasia and is a past National President of the former Securities Institute.

Mr Neal holds a Bachelor of Commerce with Merit from the University of NSW (double major in Business Finance and Accountancy) and the Diploma of the Securities Institute of Australia.

He was a Non Executive Director of Arasor International Limited and is currently a Non-Executive Director of Dyesol Limited and Intrapower Ltd.

Directors' report

Laurie Kan (Non-Executive Director) Resigned 17 December 2008

Laurie Kan is a founder and General Partner of ON Capital. In 1991, Laurie established Microsoft Corporation's Hong Kong office and headed the business for seven years while building up the company's Southern China operations. He went on to become founder and lead investor of PointCast Asia in 1997 introducing news casting services to Asia, and was Chief Operating Officer of CIC Corporation (previously Chinadotcom). In 1999, he established Sina Corporation (previously sina.com) in Hong Kong, which became the largest Chinese-language Internet portal in the world. Also, as President and Executive Director of Timeless Software Ltd, he executed a turnaround during 1998 to 1999 from loss to profitability through shifting focus to high-growth business areas and streamlining operations, and eventually led Timeless Software Ltd to be the first company listed on Hong Kong's Growth Enterprise Market (GEM). In 2000, he co-invested with H&Q Asia Pacific Limited to establish i100 Corporation, which created Hong Kong's first content-focused mobile telecommunications network - noodle, which uses GPRS 2.5G technology to deliver a content selection to Hong Kong customers. Mr. Kan graduated in business from Hong Kong Baptist College and from the Stanford Graduate School of Business' Executive Program for Smaller Companies.

Zhu Xin Kun (Non-Executive Director) Resigned 17 December 2008

Zhu Xin Kun is a general manager of Shanghai Venture Capital Management Co. Ltd. Prior to joining the firm in 2001, he served as a senior investment manager for Shenzhen Capital Group Co. Ltd. and prior to that, as a manager in the corporate finance division of the Bank of Tokyo - Mitsubishi Shanghai Branch. Mr. Kun previously served as a representative of The Nikko Securities Co., Ltd., Shanghai Representative Office and as a research fellow of Japanese Studies, Shanghai Institute for International Studies. Mr. Kun holds a BA of Law from Fudan University and an MA of Economics from China East Normal University.

Simon Eckersley (Non-Executive Director) Resigned 15 May 2008

Simon Eckersley is a cofounder and general partner of Hao Capital, a China focused private equity firm. Mr Eckersley has over 16 years experience in the financial services industry and previously worked for Goldman Sachs International in London, where he was an Executive Director in the Investment Management Division. Prior to that he worked for Charterhouse Development Capital and Morgan Grenfell. Mr Eckersley holds an LLB from the London School of Economics and Political Science and a Diplome d'Etudes Juridiques from L'Universite de Strasbourg. He was called to the Bar of England and Wales and earned an MBA from The Tuck School at Dartmouth College.

Mr Edward Li CA (Non-Executive Director) Appointed 16 September 2008

Edward Li is a Chartered Accountant with over 30 years experience in senior positions of both private and public companies, including Red Earth, Lincraft, the Sussan Group and more recently with Go Connect Ltd and Sino Strategic International Limited. Mr Li has been Chief Financial Officer and joint Company Secretary of Go Connect Ltd since March 2000. He has been a Chartered Accountant for over 35 years and holds a Bachelor of Economics.

Directors' report

Mr Reginald Bancroft (Non-Executive Director and Company Secretary) Appointed 17 September 2008

Reg Bancroft had a 37 year career with UK based Royal and Sun Alliance Insurance (RSA). After 17 years in the UK, he moved to Australia in 1984 taking on roles including Director of commercial insurance across the Asia Pacific region. Retiring from RSA in Korea in 2002, he took up an assignment as Executive Vice Chairman with Green Hwajae, a listed Korean non-life insurer. He presently is Australian Managing Partner of Doran Capital Partners, a privately held, diversified real estate investment management and advisory Company that conducts business throughout Asia.

COMPANY SECRETARY

Donald Stephens, BAcc, FCA Retired 16 February 2009

Donald Stephens is a Chartered Accountant and corporate adviser with over 20 years experience in the accounting industry, including 14 years as a partner of HLB Mann Judd Stephens, a firm of Chartered Accountants. He is a non-executive director of Mithril Resources Ltd and Papyrus Australia Ltd and is company secretary to Minotaur Exploration Ltd, Mithril Resources Ltd, Petratherm Ltd and Ferraus Ltd. He holds other directorships with private companies and provides corporate advisory services to a wide range of organisations.

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of Arasor International Ltd were:

	Number of Ordinary Shares	Number of Options over Ordinary Shares
Dr Simon Cao	4,423,717	-
Dr Larry Marshall	114,356	-
Mr George SyCip	469,742	40,000
Mr Parviz Tayebati	74,382	40,000
Mr Anthony Surtees	30,797	40,000
Mr Ian Neal	-	40,000
Mr Laurie Kan	105,600	40,000
Mr Zhu Xin Kun	-	40,000
Mr Simon Eckersley	394,190	125,334
Mr Edward Li	-	-
Mr Reginald Bancroft	-	-

In addition to the above listed interests, the following directors have an indirect interest in the shares of Arasor International Ltd:

- New Commerce Investment Co. Ltd, an entity in which Simon Cao is a director, holds 12,468,726 Ordinary Fully Paid Shares in Arasor International Ltd.

- AZNA LLC, an entity in which Parviz Tayebati is a director, holds 305,918 Ordinary Fully Paid Shares in Arasor International Ltd.

Directors' report

- 1414 Holding Limited 8989 Holding Limited and 898 Management Limited, entities in which Laurie Kan is a director, hold 4,010,695, 357,574 and 129,020 Ordinary Fully Paid Shares in Arasor International Ltd respectively.
- Fortune Idea Capital Inc., an entity in which Zhu Xin Kun is a director, holds 2,673,987 Ordinary Fully Paid Shares in Arasor International Ltd.
- 8989 Holding Limited, an entity in which Simon Eckersley is a director, holds 4,010,695 Ordinary Fully Paid Shares in Arasor International Ltd.

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made at the date of this report.

PRINCIPAL ACTIVITIES

The principal activities of the group during the financial year were to develop and market optical chips, components, modules and subsystems to capitalise on the emergence of new applications for photonic technologies.

REVIEW OF OPERATIONS

The Group's reported net loss attributable to Arasor International Limited including discontinued operations amounted to $144.3 Million. This negative result was driven by a write down in the Company's receivables (principally related to sales of wireless product to India) of $53 Million and impairment of the Company's assets (primarily intangible assets) of $57.8 Million (both including discontinued operations).

During the 2008 financial year, the Group concentrated on the rationalisation of its businesses, including a complete exit from the Company's wireless consumer market business targeting customers in India.

The major highlight for the year was the sale of non core assets located in the United States (US) for $4.3 Million, resulting in significant working capital for the group.

Looking forward, the Company's ongoing focus is to concentrate its efforts on its manufacturing facility located in China and the Joint Venture formed with ZTE International.

RISK MANAGEMENT

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the Board.

Directors' report

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the group's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.

Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of performance indicators of both a financial and non financial nature.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As detailed in the review of operations, Arasor International Limited has made several changes throughout the year which have impacted the size and performance of the group. These include the disposal of certain non core manufacturing assets located in the US, the exit of the Company's wireless consumer market operations targeting customers in India and reduction in worldwide workforce. These have significantly affected the results of the operations of the Company and will continue to do so in future years.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On the 26 February 2009, the Company announced it had requested a voluntary suspension in the trading of the Company's shares. The voluntary suspension was put in place to complete the Company's restructure and at the date of this report, the Company's shares remain in suspension.

On 3 March 2009, the Company announced the successful sale of its passive optical component business, AOFR Pty Ltd, to Aegis Lightwave Inc,. a US based group. The consideration for the sale was $2.36 Million.

On 5 November 2009, the Company announced the successful sale of Bandwidth Foundry International Pty Ltd, a research and development facility located in Sydney, for the notional consideration of $1.00, the payment of the Company's liabilities of $0.391 Million and Administrator costs of $0.102 Million.

On 5 February 2010, the Company announced the repayment of the secured term loan in place in China with the Agricultural Bank of China. The resolution involved the payment of RMB 116 Million (approximately AUD $18 Million) to the bank (representing both principal and accrued interest) made by the Company's minority JV partner Guangzhou Nan Sha Assets Operation Co., Ltd ('NGAO). In exchange for the payment, the NGAO has assumed ownership of the Company's land and buildings in Guangzhou. Arasor maintains an ability to lease the land off the NGAO in order to continue to service its client base.

On 1 April 2010, the Company announced it had entered into an agreement to sell its Japan optical wafer production fabrication facility and related assets to a US based multinational Company. The transaction provides for a consideration of US $0.75 Million (AUD $0.815 Million) and a manufacturing agreement to be put in place with the Company's Nansha facility located in Guanzhou, China.

Directors' report

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information as to the likely developments in the operations of the Group and the expected results of those operations in future years has not been included in the Annual Report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to any specific environmental regulation in its operations under the law of a state/territory or Commonwealth of Australia.

SHARE OPTIONS

Unissued Shares

At the date of this report, the following options to acquire ordinary shares in the company were on issue:

Issue Date	Expiry Date	Exercise Price	Balance at the date of this report
11/10/2006	23/01/2013	$1.00	40,107
11/10/2006	24/10/2011	$1.50	240,000
02/01/2007	1/01/2012	$2.15	143,750
05/11/2007	4/11/2012	$1.48	1,375,000
05/11/2007	4/11/2012	$3.10	10,000
05/11/2007	4/11/2012	$1.60	20,000
09/01/2008	8/01/2013	$1.59	643,788
			2,472,645

Shares issued as a result of the exercise of options

During and subsequent to the end of the financial year, no options have been exercised by option holders into fully paid ordinary shares.

Directors' report

INDEMNIFICATION AND INSURANCE OF DIRECTORS, AUDITORS AND OFFICERS

To the extent permitted by law, the Company has indemnified (fully insured) each director and the secretary of the Company for a premium of $94,779. The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings (that may be brought) against the officers in their capacity as officers of the Company or a related body, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. The contract of insurance prohibits disclosure of the nature of the liability. The Company has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against liability incurred as such an officer or auditor.

REMUNERATION REPORT – AUDITED

This report outlines the remuneration arrangements in place for directors and key management personnel of Arasor International Ltd.

Summary of positions held by executive key management personnel

Mr William Mackenzie, Chief Executive Officer
Mr Mackenzie was appointed as the group's Chief Executive Officer on 1 June 2008. Mr Mackenzie is responsible for the overall management of the group's operations and communication with the board.

Mr Mike Hong, Executive Vice President and General Manager, Wireless Solutions
Mr. Hong leads marketing, sales, business development and operations for wireless solution products.

Mr Yonglin Huang, Senior Vice President of Product Development
Mr Huang heads the Company's engineering department and presently is acting general manager for Arasor's Optical Networking business unit, Nansha branch. Mr Huang resigned on 13 February 2010.

Mr Jeffrey Cheng, Executive Vice President of Corporate Development
Mr. Cheng heads corporate development, legal and also focuses on strategy and mergers and acquisitions for Arasor. Mr Cheng resigned from the Company on 3 July 2008.

Remuneration philosophy

The board is responsible for determining remuneration policies applicable to directors and key management personnel of the entity. The broad policy is to ensure that remuneration properly reflects the individuals' duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people with appropriate skills and experience. At the time of determining remuneration consideration is given by the Board to the entity's financial performance.

All remuneration paid to directors and executives is expensed as incurred. Executives are also entitled to participate in the company share option scheme. Options issued under the plan are valued using the Black-Scholes methodology.

Directors' report

The board policy is to remunerate non-executive directors at market rates based on comparable companies for time, commitment and responsibilities. The board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate remuneration of the Non-executive Directors is presently fixed at $500,000.

Employment contracts

Chairman

The employment conditions of Chairman, Dr Simon Cao, are formalised in a contract of employment. Dr Cao commenced his employment on 1 June 2006 and his gross base salary is US$304,192, which is subject to an annual review. All travel expenses of Dr Cao in the course of his employment are reimbursed by the Company.

Dr Cao may resign on six months' notice and the Company may terminate Dr Cao's employment without cause by providing one months' notice or immediately, with the payment of six months' base salary. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Company can terminate employment at any time.

Chief Executive Officer

The employment conditions of the Chief Executive Officer, Mr William Mackenzie, are formalised in a contract of employment. Mr Mackenzie commenced his employment on 15 May 2008 and his gross salary is US $360,000. He is entitled an annual incentive bonus of US $180,000 based on achieving certain performance criteria which are determined at the board's discretion. The bonus in the first year of employment is guaranteed and has been booked as a liability in the current period.

Other Key Management Personnel

The employment contracts in place for all other key management personnel contain provisions whereby the employment relationship can be terminated by either party at any time, with or without notice and with or without cause. Mike Hong is additionally entitled to be reimbursed for travel expenses in the course of his employment and has a severance clause equal to 12 months paid salary.

Directors' report

Remuneration Report

Table 1: Director remuneration for the year ended 31 December 2008

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	$
Dr Simon Cao				
2008	304,192	-	-	**304,192**
2007	346,974	-	-	**346,974**
Dr Charles Mao				
2008	-	-	-	**-**
2007	232,125	-	-	**232,125**
Dr Larry Marshall				
2008	161,702	-	-	**161,702**
2007	200,753	-	-	**200,753**
Mr George SyCip				
2008	40,000	-	-	**40,000**
2007	40,000	-	-	**40,000**
Mr Parviz Tayebati				
2008	9,534	-	-	**9,534**
2007	40,000	-	-	**40,000**
Mr Anthony Surtees				
2008	23,123	-	-	**23,123**
2007	40,000	-	-	**40,000**

Directors' report

Table 1 Continued: Director remuneration for the year ended 31 December 2008

	Primary Benefits	Post Employment	Equity	Total
	Salary & Fees	Superannuation	Options	$
Mr Ian Neal				
2008	21,479	-	-	**21,479**
2007	40,000	-	-	**40,000**
Mr Laurie Kan				
2008	38,466	-	-	**38,466**
2007	40,000	-	-	**40,000**
Mr Zhu Xin Kun				
2008	38,466	-	-	**38,466**
2007	40,000	-	-	**40,000**
Mr Simon Eckersley				
2008	14,795	-	-	**14,795**
2007	3,333	-	-	**3,333**
Edward Li				
2008	11,616	-	-	**11,616**
2007	-	-	-	**-**
Reginald Bancroft				
2008	11,507	-	-	**11,507**
2007	-	-	-	**-**
Total				
2008	674,880	-	-	**674,880**
2007	1,023,185	-	-	**1,023,185**

No remuneration for Directors for the year ended 31 December 2008 or 31 December 2007 was performance based.

The directors note the above listed remuneration report reflects the Company's accrued fees and the actual cash paid during the period does not necessarily relate to the above listed numbers.

Directors' report

Table 2: Remuneration of other management personnel for the year ended 31 December 2008

	Salary & Fees	Superannuation	Options	$
William Mackenzie **				
2008	457,460	-	-	**457,460**
2007	-	-	-	**-**
Mike Hong				
2008	257,742	-	-	**257,742**
2007	257,742	-	187,690	**445,432**
Yonglin Huang				
2008	182,503	-	-	**182,503**
2007	182,503	-	25,168	**207,671**
Jeffrey Cheng *				
2008	94,545	-	-	**94,545**
2007	187,548	-	70,469	**258,017**
Total				
2008	992,250	-	-	**992,250**
2007	627,793	-	283,327	**911,120**

The directors note the above listed remuneration report reflects the Company's accrued fees and the actual cash paid during the period does not necessarily relate to the above listed numbers.
* Jeffrey Cheng resigned from the Company on 3 June 2008

** Salary and Fees in Mr Mackenzie's remuneration in 2008 includes a US $180,000 (A$211,267) bonus paid in accordance with his employment contract.

No directors or key management personnel were granted options during the year.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Directors' Meetings	Attended	Eligible
Dr Simon Cao	12	14
Dr Larry Marshall	8	10
Mr George SyCip	14	14
Mr Parviz Tayebati	2	3
Mr Anthony Surtees	8	9
Mr Ian Neal	8	8
Mr Laurie Kan	3	13
Mr Zhu Xin Kun	5	13
Mr Simon Eckersley	4	5
Mr Edward Li	4	6
Mr Reginald Bancroft	5	6

Directors' report

Audit Committee	Attended	Eligible
Dr Larry Marshall	1	1
Mr Ian Neal	1	1
Mr Laurie Kan	-	1

During the year, no meetings were held for either the remuneration or risk and compliance committees. Due to the size and composition of the Arasor International Group, the board has decided to disband both committees and assign the committees responsibilities back to the board.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services are contained with note 27 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act. The auditor's independence declaration for the year ended 31 December 2008 has been received and can be found on page 19 which forms a part of this report.

ROUNDING OF AMOUNTS

The Company is a Company of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998. In accordance with that Class Order amounts in directors report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the board of directors.

Mr Reginald Bancroft
Director

30 April 2010

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AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ARASOR INTERNATIONAL LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Arasor International Limited for the year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Signed at Wayville on this 30th day of April 2010

Income Statement
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
Revenue from operating activities	3(a)	18,187	25,135	-	-
Cost of revenue from operating activities		(15,246)	(22,451)	-	-
Gross Profit		2,941	2,684	-	-
Impairment of loan accounts to subsidiaries	3 (h)	-	-	(109,765)	(44,356)
Impairment expense	3 (h)	(36,459)	-	-	-
Other income	3 (b)	1,316	717	-	146
Bad and doubtful debts expense	3 (g)	(6,959)	(4)	-	-
Research expenses		(8,303)	(7,145)	(991)	(471)
Sales and marketing costs		(4,407)	(2,946)	(1,509)	(796)
General and administration costs		(7,760)	(6,017)	(2,265)	(1,727)
Finance costs	3 (f)	(985)	(946)	-	-
Loss before income tax		(60,616)	(13,657)	(114,530)	(47,204)
Income tax benefit/(expense)	4	-	(1,274)	-	(1,274)
Loss for the year from continuing operations		(60,616)	(14,931)	(114,530)	(48,478)
Loss attributable to minority interest	24	3,131	639	-	-
Loss for the year from continuing operations attributable to members of the parent entity		(57,485)	(14,292)	(114,530)	(48,478)
Loss for the year from discontinued operations	33	(86,850)	(2,395)	-	-
Loss for the year attributable to members of the parent entity		(144,335)	(16,687)	(114,530)	(48,478)

Earnings/(loss) per share:		*Cents*	*Cents*
From continuing and discontinued operations:			
Basic earnings per share	5	(113.17)	(15.55)
From continuing operations:			
Basic earnings per share	5	(45.07)	(13.32)

The above income statement should be read in conjunction with the accompanying notes

Balance Sheet
AS AT 31 DECEMBER 2008

		Consolidated		Parent	
	Note	2008 $'000	2007 $'000	2008 $'000	2007 $'000
CURRENT ASSETS					
Cash and cash equivalents	6	1,790	7,467	2	46
Trade and other receivables	7	4,088	85,598	8	4
Inventories	8	379	3,035	-	-
Other current assets	9	142	3,748	96	422
Discontinued operations	33	1,135	-	-	-
TOTAL CURRENT ASSETS		7,534	99,848	106	472
NON-CURRENT ASSETS					
Available-for-sale investments	10	46	48	-	-
Property, plant and equipment	11	18,249	17,513	-	-
Other receivables	12	-	741	-	38,517
Other financial assets	13	345	-	2,365	64,172
Intangible assets	14	1,085	36,550	-	-
TOTAL NON-CURRENT ASSETS		19,725	54,852	2,365	102,689
TOTAL ASSETS		27,259	154,700	2,471	103,161
CURRENT LIABILITIES					
Trade and other payables	16	8,779	39,060	418	2,591
Short-term borrowings	17	17,381	4,740	87	357
Other current liabilities	18	1,402	230	-	-
Discontinued operations	33	35,478	-	-	-
TOTAL CURRENT LIABILITIES		63,040	44,030	505	2,948
NON-CURRENT LIABILITIES					
Long-term borrowings	17	-	10,090	-	-
Long-term provisions	19	305	47	-	-
Other non-current liabilities	18	137	320	624	-
Financial liabilities	20	1,403	-	1,403	-
TOTAL NON-CURRENT LIABILITIES		1,845	10,457	2,027	-
TOTAL LIABILITIES		64,885	54,487	2,532	2,948
NET ASSETS		(37,626)	100,213	(61)	100,213
EQUITY					
Issued capital	21	157,066	146,842	157,066	146,842
Reserves	22	(9,455)	(8,858)	6,029	1,997
Retained earnings	23	(185,237)	(40,902)	(163,156)	(48,626)
Parent interests		(37,626)	97,082	(61)	100,213
Minority equity interests	24	-	3,131	-	-
TOTAL EQUITY		(37,626)	100,213	(61)	100,213

The above balance sheet should be read in conjunction with the accompanying notes

Statement of Changes in Equity
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Consolidated					Parent			
	Share Capital Ordinary $'000	Retained Earnings $'000	Reserves $'000	Minority Interest $'000	Total $'000	Share Capital Ordinary $'000	Retained Earnings $'000	Reserves $'000	Total $'000
Balance at 1 January 2007	74,036	(24,215)	(1,289)	2,634	51,166	74,036	(148)	1,016	74,904
Shares issued upon acquisition of Xalted Networks fixed wireless business	6,866	-	-	-	6,866	6,866	-	-	6,866
Shares issued upon acquisition of Verrillon Holdings Pty Ltd	19,885	-	-	-	19,885	19,885	-	-	19,885
Shares issued pursuant to private placements	46,312	-	-	-	46,312	46,312	-	-	46,312
Shares issued upon exercise of options	450	-	-	-	450	450	-	-	450
Transfers from share option reserve	784	-	(784)	-	-	784	-	(784)	-
Transaction costs (net of tax)	(1,491)	-	-	-	(1,491)	(1,491)	-	-	(1,491)
Loss attributable to members of the parent entity from continuing and discontinued operations	-	(16,687)	-	-	(16,687)	-	(48,478)	-	(48,478)
Foreign exchange translations	-	-	(8,549)	-	(8,549)	-	-	-	-
Share-based payments	-	-	1,764	-	1,764	-	-	1,765	1,765
Contributions of equity by Minority interest holders	-	-	-	1,136	1,136	-	-	-	-
Minority interest share of loss	-	-	-	(639)	(639)	-	-	-	-
Balance at 31 December 2007	146,842	(40,902)	(8,858)	3,131	100,213	146,842	(48,626)	1,997	100,213

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Changes in Equity (continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

	Consolidated					Parent			
	Share Capital Ordinary $'000	Retained Earnings $'000	Reserves $'000	Minority Interest $'000	Total $'000	Share Capital Ordinary $'000	Retained Earnings $'000	Reserves $'000	Total $'000
Balance at 1 January 2008	146,842	(40,902)	(8,858)	3,131	100,213	146,842	(48,626)	1,997	100,213
Shares and options issued upon acquisition of the assets of Novalux Inc.	8,007	-	418	-	8,425	8,007	-	418	8,425
Shares issued in relation to acquisition of Verrillon Holdings Pty Ltd (deferred consideration)	2,225	-	-	-	2,225	2,225	-	-	2,225
Loss attributable to members of the parent entity from continuing and discontinued operations	-	(144,335)	-	-	(144,335)	-	(114,530)	-	(114,530)
Foreign exchange translations	-	-	(4,629)	-	(4,629)	-	-	-	-
Transaction costs	(8)	-	-	-	(8)	(8)	-	-	(8)
Share-based payments	-	-	3,614	-	3,614	-	-	3,614	3,614
Minority interest share of loss	-	-	-	(3,131)	(3,131)	-	-	-	-
Balance at 31 December 2008	157,066	(185,237)	(9,455)	-	(37,626)	157,066	(163,156)	6,029	(61)

The above statement of changes in equity should be read in conjunction with the accompanying notes

Cash Flow Statement

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008

		Consolidated		Parent	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		35,323	40,921	-	-
Payments to suppliers and employees		(40,953)	(89,269)	(609)	(1,288)
Finance costs		(2,577)	(993)	-	-
Interest received		92	468	-	146
Other income		-	522	-	-
NET CASH USED IN OPERATING ACTIVITIES	**6 (a)**	(8,115)	(48,351)	(609)	(1,142)
CASH FLOWS FROM INVESTING ACTIVITIES					
Net cash acquired from business combinations		-	1,459	-	-
Purchase of property, plant and equipment		(1,513)	(3,694)	-	-
Proceeds from sale of property, plant and equipment		4,518	-		
Payments on amounts due to related parties		(547)	(743)	-	-
Amounts receivable from related parties		161	-	-	-
Loan to wholly-owned subsidiaries		-	-	(250)	(43,900)
Repayment of loans from wholly owned subsidiaries		-	-	461	-
Loan from wholly-owned subsidiary		-	-	624	-
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES		2,619	(2,978)	835	(43,900)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	46,686	-	46,686
Transaction costs of share issues		-	(2,128)	-	(2,128)
Increase in minority interest in subsidiaries		-	1,136	-	-
Proceeds from borrowings		4,658	7,344	95	446
Repayment of borrowings		(4,245)	(2,684)	(365)	(39)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		413	50,354	(270)	44,965
Net increase/(decrease) in cash and cash equivalents		(5,083)	(975)	(44)	(77)
Net foreign exchange differences		(545)	(1,834)	-	-
Cash at the beginning of the reporting period		7,467	10,276	46	123
CASH AT THE END OF THE YEAR	**6**	1,839	7,467	2	46

The above cash flow statement should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (and other pronouncements of the AASB). The financial report has been prepared on a historical cost basis using Australian dollars, which is the presentation currency. Arasor International Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

b. Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). 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 2008.

The financial statements were authorised for issue by the directors on 30 April 2010.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of Arasor International Ltd and its subsidiaries as at 31 December each year (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the Group financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of profit or loss and net assets in Arasor GuangZhou Co., Limited not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet.

d. Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

e. Joint Venture Arrangements

Jointly controlled entities

Interests in jointly controlled entities in which the Group is a venturer (and so has joint control) are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

f. Segment Reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different than those of segments operating in other economic environments. The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by differences in the location of the groups operations. The business activities of the entities in the consolidated entity are predominantly within a single business which is the manufacture and sale of goods in the optoelectronics industry.

g. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial asset.

h. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments to match the depreciation charge.

i. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

j. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

k. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of 3 months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

l. Trade and other receivables

All debtors are recognised at cost less provision for doubtful debts, which in practice will equal the amounts receivable upon settlement. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect on all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

m. Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials – purchase cost on a first-in, first-out basis; and

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

n. Foreign currency translation

The functional currency for the Group is US dollars and presentation currency is Australian dollars. The Group determines each entity's functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the local currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the rate of exchange ruling at the balance sheet date.

All exchange differences in relation to the translation from local currency to functional currency are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

As at the reporting date the assets and liabilities of all of the Groups subsidiaries are translated into the presentation currency of Arasor International Ltd at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year where this approximates the rate at the date of the transaction.

The exchange differences arising on the translation of functional currency to presentation currency are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

o. Income tax

Income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses. Current and deferred tax expense attributable to amounts recognised directly in equity is also recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

p. Other taxes

Revenues, expenses and assets are recognised net of the amount of GST and VAT except:

- when the GST or VAT incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables, which are stated with the amount of GST/VAT included.

The net amount of GST or VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST and VAT 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 and VAT recoverable from, or payable to, the taxation authority.

q. Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation is calculated on a straight-line over the estimated useful life of the assets as follows:

Buildings	20 years
Machinery	10 years
Vehicles	5 years
Furniture and fittings	3 – 5 years
Electronic equipment	3 – 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

r. Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are expensed against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs

All research costs are expensed as incurred.

s. Financial Instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Available-for-sale financial assets
Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the Group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

t. Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

u. Trade and other payables

Trade payables and other payables are carried at cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

v. Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost.

w. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

x. Employee leave benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave, are expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. Amounts after 12 months have been recognised as non-current liabilities at their present value.

y. Share-based payment transactions

The Group provides benefits to employees and consultants of the Group in the form of share-based payments, whereby employees or consultants receive option incentives (equity-settled transactions).

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP) which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The cost is recognised as an expense in the income statement, together with a corresponding increase in the share option reserve, when the options are issued. The fair value is determined using the Black Scholes option pricing model.

Upon the exercise of options, the balance of share based payments reserve relating to those options is transferred to share capital.

z. Non-current assets (or disposal groups) and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing their use. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write down of the asset (or discontinued operation) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset is recognized at the date of derecognition.

Assets of a disposal group are presented separately from the other assets in the balance sheet. The liabilities of a disposal group are present separately from the other liabilities in the balance sheet.

A discontinued operation that is a component of the entity that has been disposed of or abandoned is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

aa. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

ab. Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

ac. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Significant accounting estimates and assumptions

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an using the Black-Scholes model, with the assumptions detailed in note15. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Intangible assets – impairment

The group tests annually whether the intangible assets held have suffered any impairment in accordance with its accounting policies. The recoverable amounts of cash generating units have been determined with reference to value in use calculations.

ad. New accounting standards and interpretations not yet adopted

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 31 December 2008 reporting periods. The following standards and amendments are available for early adoption but have not been applied by the Company in these financial statements:

AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009).

These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009).

AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's board for the purposes of decision making. While the impact of this standard cannot be assessed at this stage, there is the potential for more segments to be identified. Given the lower economic levels at which segments may be defined, and the fact that cash generating units cannot be bigger than operating segments, impairment calculations may be affected. Management does not presently believe impairment will result.

AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009).

The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group. If an entity has made a prior period adjustment or reclassification, a third balance sheet as at the beginning of the comparative period will be required.

AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009).

The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

AASB 2008-1: Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009).

This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project.

No changes are expected to materially affect the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Group's financial statements.

ae. Rounding of amounts

The Company is a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission (ASIC), relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or as otherwise indicated.

2. SEGMENT INFORMATION

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by differences in the location of the groups operations. The business activities of the entities in the consolidated entity are predominantly within a single business which is the manufacture and sale of goods in the optoelectronics industry.

2008	Australia $'000	Cayman Islands $'000	US Operations (Discontinued) $'000	Japan $'000	China $'000	Total $'000	Inter-segment elminiations/ unallocated $'000	Consolidated $'000
Revenue								
Sales to external customers	12,034	-	2,490	182	5,971	20,677	-	20,677
Inter-segment sales	-	-	406	5	13	424	(424)	-
Total sales revenue	12,034	-	2,896	187	5,984	21,101	(424)	20,677
Other income (excluding interest)	1,075	-	-	-	168	1,243	-	1,243
Total segment revenue / income (excluding interest)	13,109	-	2,896	187	6,152	22,344	(424)	21,920
Interest income								73
Total consolidated revenue								21,993
Result								
Segment result	(24,872)	(14,690)	(86,850)	(1,018)	(17,467)	(144,897)	-	(144,897)
Net interest income/(expense) [including discontinued operations]								(2,569)
Profit before income tax benefit								(147,466)
Income tax benefit								-
Minority interest								3,131
Net profit after tax including discontinued operations								(144,335)

2007	Australia $'000	Cayman Islands $'000	US Operations (Discontinued) $'000	Japan $'000	China $'000	Total $'000	Inter-segment elminiations/ unallocated $'000	Consolidated $'000
Revenue								
Sales to external customers	3,629	-	91,839	148	21,358	116,974	-	116,974
Inter-segment sales	52	-	843	19	84	998	(998)	-
Total sales revenue	3,681	-	92,682	167	21,442	117,972	(998)	116,974
Other income (excluding interest)	250	-	-	-	272	522	-	522
Total segment revenue / income (excluding interest)	3,931	-	92,682	167	21,714	118,494	(998)	117,496
Interest income								495
Total consolidated revenue								117,991
Result								
Segment result	(3,854)	(4,999)	(2,395)	(1,355)	(2,964)	(15,567)	-	(15,567)
Net interest income/(expense) [including discontinued operations]								(485)
Profit before income tax benefit								(16,052)
Income tax expense								(1,274)
Minority interest								639
Net profit after tax								(16,687)

2008	Australia $'000	Cayman Islands $'000	US Operations (Discontinued) $'000	Japan $'000	China $'000	Total $'000	Inter-segment elminiations $'000	Consolidated $'000
Assets and liabilities								
Segment assets	4,791	-	1,135	240	21,093	27,259	-	27,259
Inter-segment assets	3,511	39,691	-	327	-	43,529	(43,529)	-
Unallocated assets								-
Total assets								27,259
Segment liabilities	4,308	-	35,478	506	24,593	64,885	-	64,885
Inter-segment liabillities	-	89,548	-	26	3,805	93,379	(93,379)	-
Unallocated liabilities								-
Total liabilities								64,885
Other segment information								
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	140	-	21,372	-	299	21,811	-	21,811
Depreciation and amortisation expense	2,310	785	3,302	-	2,080	8,477	-	8,477

2007	Australia $'000	Cayman Islands $'000	Japan $'000	China $'000	Total $'000	Inter-segment elminiations $'000	Consolidated $'000
Assets and liabilities							
Segment assets	37,342	80,118	294	36,946	154,700	-	154,700
Inter-segment assets	112,128	14,166	158	309	126,761	(126,761)	-
Unallocated assets							-
Total assets							154,700
Segment liabilities	5,765	26,540	98	22,084	54,487	-	54,487
Inter-segment liabillities	-	79,400	9,505	2,277	91,182	(91,182)	-
Unallocated liabilities							-
Total liabilities							54,487
Other segment information							
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	21,127	7,413	-	2,935	31,475	-	31,475
Depreciation and amortisation expense	592	2,079	15	1,643	4,329	-	4,329

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
3. REVENUE AND EXPENSES				
(a) Revenue				
From continuing operations:				
Sale of goods	18,187	25,135	-	-
From discontinued operations:				
Sale of goods	2,490	91,839	-	-
	20,677	116,974	-	-
(b) Other income				
From continuing operations:				
Interest income	73	195	-	146
Government grants	1,243	522	-	-
	1,316	717	-	146
From discontinued operations:				
Interest income	20	300	-	-
	1,336	1,017	-	146
(c) Expenses				
Depreciation of non-current assets				
From continuing operations:				
Plant and equipment	1,557	879	-	-
Buildings	563	388	-	-
	2,120	1,267	-	-
From discontinued operations:				
Plant and equipment	1,541	181	-	-
Amortisation of intangibles				
From continuing operations:				
Customer lists	1,268	1,248	-	-
Patents and trademarks	1,787	1,072	-	-
	3,055	2,320	-	-
From discontinued operations:				
Patents and trademarks	1,761	461	-	-
	1,761	461	-	-

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
(d) Employees benefits expense				
From continuing operations:				
Wages, salaries, directors fees and other remuneration expenses	4,888	5,901	126	170
Share-based payments expense	3,614	1,249	3,614	1,249
	8,502	7,150	3,740	1,419
From discontinued operations:				
Wages, salaries, directors fees and other remuneration expenses	7,565	5,552	-	-
(e) Net foreign exchange gain / (loss)				
Total foreign exchange gain/(loss)	333	130	-	-
			-	
(f) Finance costs				
From continuing operations:				
Term loan	950	785	-	-
Other facilities (see note 17)	35	161	-	-
	985	946	-	-
From discontinued operations:				
Notes payables	1,570	-	-	-
Other facilities (see note 17)	106	33	-	-
	1,676	33	-	-
(g) Other items				
From continuing operations:				
Bad and doubtful debts - trade debtors	6,959	4	-	-
From discontinued operations:				
Bad and doubtful debts - trade debtors	52,515	11,425	-	-

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
(h) Impairment expense				
From continuing operations:				
Intangible assets	32,098	-	-	-
Property, plant and equipment	1,377	-	-	-
Prepayments	1,353			
Pledged deposits	1,084	-	-	-
Other	547	-	-	-
	36,459	-	-	-
From discontinued operations:				
Intangible assets	16,374	-	-	-
Property, plant and equipment	1,470	-	-	-
Other	661	-	-	-
	18,505	-	-	-

4. INCOME TAX

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Income Statement				
Current income tax				
Current income tax charge/(benefit)	-	-	-	-
Deferred income tax				
Write off of deferred tax asset pertaining to Australian Tax losses and temporary differences	-	1,274	-	1,274
Income tax expense/(benefit) reported in the income statement	-	1,274	-	1,274

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Loss before income tax from continuing operations	(60,616)	(13,657)	(114,530)	(47,204)
Loss before income tax from discontinued operations	(86,850)	(2,395)	-	-
	(147,466)	(16,052)	(114,530)	(47,204)
At the Group's statutory income tax rate of 30% (2007: 30%)	(44,240)	(4,816)	(34,359)	(14,161)
Share based payments	1,084	530	1,084	530
Loan impairment	-	-	32,930	13,307
Difference in overseas tax rates	520	117	-	-
Impairment of assets	17,340	-	-	-
Tax losses not recognised	25,296	4,169	345	324
Write off of deferred tax assets	-	1,274	-	1,274
	-	1,274	-	1,274

4. INCOME TAX (CONTINUED)

The Group has tax losses arising in the following jurisdictions:

Australia	AUD 13,112,162
China	RMB 120,824,325

Australian tax losses are available indefinitely for offset against future taxable profits of Arasor International. Losses pertaining to China can be carried forward for five financial years, however if they remain unused throughout this period, they will expire. No North American losses have been listed as the tax returns have not been prepared and the Group has abandoned the entity to which the losses related (refer to note 34).

5. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated	
	2008 $'000	2007 $'000
Loss for the year attributable to members of the parent entity	(144,335)	(16,687)
	2008	2007
Weighted average number of ordinary shares for basic earnings per share	127,541,270	107,288,001
Effect of dilution		
Share options	N/A	N/A
Weighted average number of ordinary shares adjusted for the effect of dilution	127,541,270	107,288,001

In accordance with AASB 133 ‘Earnings per Share’, as potential ordinary shares may only result in a situation where their conversion results in an increase in loss per share or decrease in profit per share from continuing operations, no dilutive effect has been taken into account.

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
6. CASH AND CASH EQUIVALENTS				
Cash in bank and on hand	745	5,572	2	46
Short-term deposits	1,045	1,895	-	-
	1,790	7,467	2	46
Cash from discontinued operations	49	-	-	-
	1,839	7,467	2	46
Reconciliation to Cash Flow Statement				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December:				
Cash at banks and in hand	1,839	7,467	2	46
	1,839	7,467	2	46
6(a) Reconciliation of net profit after tax to net cash flows from operations				
Net loss	(144,335)	(16,687)	(114,530)	(48,478)
Adjustments for non-cash items:				
Depreciation	3,661	1,548	-	-
Amortisation	4,816	2,781	-	-
Share-based payments	3,614	1,764	3,614	1,765
Non cash tax expense/(benefit)	-	1,274	-	1,274
Minority interest in loss of subsidiaries	(3,131)	(639)	-	-
Impairment expense	54,964	-	109,765	44,356
Changes in assets and liabilities				
(Increase)/decrease in inventories	2,656	775	-	-
(Increase)/decrease in trade and other receivables	74,452	(64,929)	(4)	133
(Increase)/decrease in prepayments	2,571	(1,405)	326	(314)
(Increase)/decrease in other receivables	1,084	2,714	-	-
Increase/(decrease) in deferred income	989	550	-	-
(Decrease)/increase in trade and other payables	(9,714)	23,856	220	122
(Decrease)/increase in provisions	258	47	-	-
Net cash from operating activities	(8,115)	(48,351)	(609)	(1,142)

Non-cash transactions

On 9 January 2008, Arasor International Ltd ('Arasor') acquired certain assets and assumed certain liabilities of US based corporation Novalux Inc. The total cost of the combination was $8,615,000, which was satisfied by the issue of 5,035,852 Ordinary Shares in the Company and transaction costs totaling $608,000 which remain payable at 31 December 2008. In addition, 643,788 unlisted options with an exercise price of $1.59 and expiry date of 8 January 2013 were issued to the debt holders (Sand Hill Capital) upon assumption of the Company's liabilities.

7. TRADE AND OTHER RECEIVABLES (CURRENT)

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade receivables (i)	11,965	95,410	-	-
Allowance for doubtful debts	(8,101)	(10,720)	-	-
	3,864	84,690	-	-
Sundry receivables	224	908	8	4
	4,088	85,598	8	4

(i). Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of $34,933,000 [which includes discontinued operations located in the US] (2007: $10,390,000) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

8. INVENTORIES

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Work-in-progress (at cost)	-	800	-	-
Finished goods (at net realisable value)	379	2,235	-	-
Total inventories at the lower of cost and net realisable value	379	3,035	-	-

9. OTHER CURRENT ASSETS

Prepayments	142	2,713	96	422
Pledged deposit	-	908	-	-
Sundry receivables	-	127	-	-
	142	3,748	96	422

10. AVAILABLE FOR SALE INVESTMENTS

At cost:				
Shares in unlisted entities	46	48	-	-
	46	48	-	-

The available-for-sale investment is an investment in ordinary shares, and therefore has no fixed maturity date or coupon rate.

As the unlisted available-for-sale investment has no readily available quoted market price, the investment is carried at cost which is the best estimate of its fair value. Movements in the carrying value is impacted by changes in the relevant exchange rates.

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Plant and equipment				
Opening balance	13,913	11,142	-	-
Additions	702	1,132	-	-
Acquisitions through business combinations	5,976	2,632		
Disposals	(4,294)	-	-	-
Currency translation differences	4,054	(993)	-	-
Classified within discontinued operations	(3,627)	-	-	-
	16,724	13,913	-	-
Accumulated depreciation				
Opening balance	6,252	5,723	-	-
Depreciation for the year	3,030	1,087	-	-
Disposals	(883)	-	-	-
Currency translation differences	2,474	(558)	-	-
Classified within discontinued operations	(1,658)	-	-	-
	9,215	6,252	-	-
Provision for impairment				
Opening balance	-	-	-	-
Impairment expense	2,743	-	-	-
Currency translation differences	314	-	-	-
Classified within discontinued operations	(1,680)	-	-	-
Closing balance	1,377	-	-	-
Net book value of plant and equipment	6,132	7,661	-	-

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Plant and equipment under finance lease				
Opening balance	603	451	-	-
Additions	-	198	-	-
Currency translation differences	160	(46)	-	-
Classified within discontinued operations	(763)	-	-	-
	-	603	-	-
Accumulated depreciation				
Opening balance	435	403	-	-
Depreciation for the year	68	73	-	-
Currency translation differences	131	(41)	-	-
Classified within discontinued operations	(634)	-	-	-
	-	435	-	-
Provision for impairment				
Opening balance	-	-	-	-
Impairment expense	104	-	-	-
Currency translation differences	25	-	-	-
Classified within discontinued operations	(129)	-	-	-
Closing balance	-	-	-	-
Net book value of plant and equipment under finance lease	-	168	-	-

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Buildings				
Opening balance	10,364	9,129	-	-
Additions	-	2,216	-	-
Transfer from capital works in progress	242	231		
Currency translation differences	2,812	(1,212)		
	13,418	10,364	-	-
Accumulated depreciation				
Opening balance	680	427	-	
Depreciation for the year	563	388	-	
Currency translation differences	230	(135)		
	1,473	680	-	-
Net book value of buildings	11,945	9,684		
Capital Work in progress				
Opening balance	-	231	-	-
Other additions	401	-	-	-
Transfer to Buildings	(242)	(231)	-	-
Currency translation differences	13	-	-	-
Net book value of capital work in progress	172	-	-	-
Total net book value of property, plant and equipment	18,249	17,513	-	-

During the year, the Group carried out a review of the recoverable amount of the property, plant and equipment held at balance date, having regard to the future use in light of the changing nature of the focus of the group. This review led to the recognition of an impairment loss of $2,847,000 (including discontinued operations). The impairment was broken down as follows:

- a $290,000 impairment to Bandwidth Foundry International Pty Ltd (relating to a reduced focus on R&D due to a reduction in working capital);
- $1,087,000 impairment to AOFR Pty Ltd (relating to the Company's intention to dispose of the entity, having regard to the likely amount an arms length party would be prepared to pay for the entity); and
- $1,470,000 impairment to Arasor Corporation (classified as discontinued) to reflect the abandonment of the US Operations.

12. OTHER RECEIVABLES (NON-CURRENT)

	Consolidated 2008	Consolidated 2007	Parent 2008	Parent 2007
Notes receivable (i)	-	741	-	-
Loan to wholly-owned subsidiary	-	-	92,463	82,873
Provision for impairment of loans	-	-	(92,463)	(44,356)
	-	741	-	38,517

(i) Notes receivable are interest bearing (2%) unsecured loans provided to employees, directors and director related entities. At the balance date, no amount is owed for the notes by directors or director related entities (2007: $205,473).

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
13. OTHER FINANCIAL ASSETS				
Investment in subsidiaries (refer to note 27)	-	-	2,365	64,172
Investment in ZTEI Joint Venture	345	-	-	-
	345	-	2,365	64,172

The ZTEI joint venture was entered into with ZTEI Corporation to develop and manufacture laser display applications.

14. INTANGIBLE ASSETS

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Customer lists				
Opening balance	18,366	5,456	-	-
Other additions	-	-	-	-
Acquisitions through business combinations	-	14,174	-	-
Currency translation differences	2,876	(1,264)	-	-
	21,242	18,366	-	-
Accumulated amortisation				
Opening balance	1,837	659	-	-
Amortisation charge for the year	1,268	1,248	-	-
Currency translation differences	582	(70)	-	-
	3,687	1,837	-	-
Provision for impairment				
Opening balance	-	-	-	-
Impairment expense	16,194	-	-	-
Currency translation differences	1,361	-	-	-
Closing balance	17,555	-	-	-
Carrying amount of customer lists	-	16,529	-	-

14. INTANGIBLE ASSETS (CONTINUED)

Patents and trademarks				
Opening balance	22,788	12,885	-	-
Other additions	360	156	-	-
Acquisitions through business combinations	14,773	10,967	-	-
Currency translation differences	6,485	(1,220)	-	-
Classified within discontinued operations	(21,463)	-	-	-
	22,943	22,788	-	-
Accumulated amortisation				
Opening balance	2,767	1,300	-	-
Amortisation charge for the year	3,548	1,533	-	-
Currency translation differences	1,165	(66)	-	-
Classified within discontinued operations	(3,204)	-		
	4,276	2,767	-	-
Provision for impairment				
Opening balance	-	-	-	-
Impairment expense	32,278	-	-	-
Currency translation differences	3,274	-	-	-
Classified as US operations	(17,970)	-	-	-
Closing balance	17,582	-	-	-
Carrying amount of patents and trademarks	1,085	20,021	-	-
Total carrying amount of intangible assets	1,085	36,550	-	-

The estimated useful life of all intangible assets listed above for 2008 and 2007 is 10 years. The amortisation rate applied is 10% per annum on a straight line basis.

During the year, the Group carried out a review of the recoverable amount of the Company's intangibles held at balance date, having regard to the cash generating units to which the intangibles relate. This review led to the recognition of an impairment loss of $48,472,000 including those intangibles relating to discontinued operations. The impairment was broken down as follows:

- a $3,902,000 impairment to the Company's operations in China (reflecting lower sales to budget and constrained working capital);
- a $16,085,000 impairment to the Company's operations in Australia (relating to AOFR Pty Ltd, reflecting the Company's intention to dispose of the entity and having regard to the likely amount an arms length party would be prepared to pay for the entity); and
- a $28,485,000 impairment to Arasor Inc. and Arasor International Group Holding Limited Company (to reflect the abandonment of the US operations).

15. SHARE BASED PAYMENTS

Employee Share Option Plan

The Company has established the Arasor International Ltd Employee Share Option Plan ('ESOP') and a summary of the Rules of the Plan are set out below:

- All employees (full time and part time) will be eligible to participate in the Plan.
- Options are granted under the Plan at the discretion of the board and if permitted by the board, may be issued to an employee's nominee.
- Each option is to subscribe for one fully paid ordinary share in the Company and will expire 5 years from its date of issue. An option is exercisable at any time from its date of issue (provided all relevant vesting conditions, if applicable, have been met. Options will be issued free. The exercise price of options will be determined by the board. The total number of shares the subject of options issued under the Plan, when aggregated with issues during the previous 5 years pursuant to the Plan and any other employee share plan, must not exceed 5% of the Company's issued share capital.
- If, prior to the expiry date of options, a person ceases to be an employee of a Group company for any reason other than retirement at age 60 or more (or such earlier age as the board permits), permanent disability, redundancy or death, the options held by that person (or that person's nominee) automatically lapse on the first to occur of a) the expiry of the period of 30 days from the date of such occurrence, and b) the expiry date. If a person dies, the options held by that person will be exercisable by that person's legal personal representative.
- Options cannot be transferred other than to the legal personal representative of a deceased option holder.
- The Company will not apply for official quotation of any options.
- Shares issued as a result of the exercise of options will rank equally with the Company's previously issued shares.
- Option holders may only participate in new issues of securities by first exercising their options.

The board may amend the Plan Rules subject to the requirements of the Listing Rules.

15. SHARE BASED PAYMENTS (CONTINUED)

The following table illustrates the weighted average exercise prices (WAEP) and movements in share options issued during the year (including those issues outside of the ESOP plan):

	2008 No.	2008 WAEP
Outstanding at the beginning of the year	9,393,806	1.67
Granted during the year	643,788	1.59
Outstanding at the end of the year	10,037,594	1.66
Exercisable at the end of the year	10,037,594	1.66

Refer to page 12 for a complete list of the Company's options outstanding by class.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2008 was 3.40 years (2007: 4.75 years).

The range of exercise prices for options outstanding at the end of the year was $1.00 - $3.90 (2007: $1.00 - $3.90).

The Company's share price at the year end (31 December 2008) was $0.03 (2007: $1.54).

The weighted average fair value of options granted during the year was $0.65, which related wholly to the issue of options to debt holders in the Novalux asset acquisition.

The fair value of all share options are measured at the reporting date using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The following table lists the inputs to the model used for the year ended 31 December 2008.

Novalux asset acquisition

	2008
Share price	1.62
Exercise price	1.59
Volatility	55.76%
Risk-free interest rate (%)	6.38%
Expected life of option (years)	2.50
Dividend rate	0%

16. TRADE AND OTHER PAYABLES

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Trade payables (i)	7,142	33,872	147	35
Accrued expenses	652	1,819	266	331
Other payables	985	1,144	5	-
Deferred consideration (AOFR): (ii)	-	2,225	-	2,225
	8,779	39,060	418	2,591

(i) Trade payables are non-interest bearing and are normally settled on 60-day terms.

(ii) The amount represents the deferred consideration in relation to the acquisition of Verrillon Holdings Pty Ltd, the holding company for AOFR Pty Ltd. The amount was settled by the issue of 1,130,535 Ordinary Fully Paid Shares in the Company on 20 October 2008.

17. BORROWINGS

Current

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Finance leases (i)	-	62	-	-
Term loan (ii)	16,363	2,183	-	-
Bank Line of Credit (iii)	-	1,141	-	-
Insurance funding (iv)	87	357	87	357
Short term loan (v)	-	156	-	-
Unsecured loans from related parties (vi)	931	841	-	-
	17,381	4,740	87	357

Non-current

	Consolidated 2008 $	Consolidated 2007 $	Parent 2008 $	Parent 2007 $
Term loan (ii)	-	9,981	-	-
Finance leases (i)	-	109	-	-
	-	10,090	-	-

(i) The finances leases are secured by the leased assets recognised in property, plant and equipment. The annual interest rate for the lease liabilities is 8%. The leases have been transferred at year end to the discontinued operations liability balance sheet item (refer to note 33 for more information).

(ii) The Agriculture Bank of China, Nansha Branch, has granted Arasor Guangzhou Co. Ltd a loan facility. The total amount available under this facility is RMB 80 Million, of which RMB 77.7 Million (approximately AUD $16.3 Million) are used at 31 December 2008. The loan is repayable in 5 years from 1 July 2007 and a total of RMB 15 Million was required to be repaid prior to 30 June 2008. As at the balance date, Arasor has requested a delay in the repayments scheduled under the terms of the loan. Whilst Arasor has not received a notice of default from the Agricultural Bank of China, as Arasor is technically in breach of the term loan, it has been classified as current at 31 December 2008. The facility incurs interest at an annual rate of 8.613%

17. BORROWINGS (CONTINUED)

(iii) Silicon Valley Bank of California had granted Arasor Corporation Inc. a revolving line of credit of USD $1 Million (AUD $1.1 Million) which was repaid during the reporting period. The line of credit incurred interest at a rate of prime + 0.25%

(iv) The Company has received funding for the payment of its directors and offices insurance. The funds are repayable monthly and will be fully repaid in November 2009.

(v) China Construction Bank, Shanghai Branch had granted Arasor (Shanghai) Co. Limited a short term loan of RMB 1 Million. The funds had been repaid at 31 December 2008. The loan incurred interest at a rate of 7.24%

(vi) A party related to Dr S Cao has temporarily granted Arasor Guangzhou Co. Ltd the amount of RMB 8.89 Million as a short term loan (of which, RMB 4.42 million was outstanding at the balance date), with the loan period being 1 year at the rate of Libor +1%.

18. OTHER LIABILITIES

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Current				
Deferred income - Government Grant	1,402	230	-	-
	1,402	230	-	-
Non-current				
Loans from wholly owned subsidiary	-		624	-
Deferred income - Government Grant	137	320	-	-
	137	320	624	-

In accordance with an equipment and service agreement between Bandwidth Foundry International Pty Ltd ('BFI') and Macquarie University ('Macquarie'), BFI has agreed to provide Macquarie a licence to access its fabrication facility in exchange for $3 million in grants over 5 years, in accordance with an agreed contribution schedule. This agreement in substance is a government grant and in accordance with AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance', the revenue is required to be deferred and amortised over the period the grant is intended to cover, or the life of the asset it is intended to reimburse. For further details of this accounting policy, refer to note 1 (h).

	Consolidated		Parent	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
19. PROVISIONS				
Long service leave				
Opening balance	47	-	-	-
Assumed upon acquisition of Bandwidth Foundry International Pty Ltd	-	36	-	-
Net increase in provision during financial year	258	11	-	-
	305	47	-	-
20. FINANCIAL LIABILITIES				
1,351,351 convertible notes (2007: Nil)	1,403	-	1,403	-
	1,403	-	1,403	-

	2008		2007	
	Number	$'000	Number	$'000
Convertible Notes				
Balance at beginning of year	-	-	-	-
Partial proceeds , at a value of $1.00 per note	1,351,351	1,351	-	-
Proceeds received, but not yet allotted	-	52	-	-
Balance at end of financial year	1,351,351	1,403	-	-

The convertible notes listed above have a zero percent interest rate and mature 3 years from the date of issue (unless otherwise requested to be matured at an earlier date by the holder, being not less than one year after the issue date). The notes can be converted into cash or shares at Arasor's discretion. In the event the notes are converted to shares, they will be converted at a rate of $0.30 per share.

21. ISSUED CAPITAL

	Consolidated 2008 $'000	Consolidated 2007 $'000	Parent 2008 $'000	Parent 2007 $'000
128,559,267 fully paid ordinary shares (2007: 122,392,760)	157,066	146,842	157,066	146,842
	157,066	146,842	157,066	146,842

	2008		2007	
	Number	$'000	Number	$'000
Ordinary shares				
Balance at beginning of year	122,392,760	146,842	92,465,681	74,036
Issued upon acquisition of Xalted Networks	-	-	2,311,642	6,866
Shares issued in relation to acquisition of Verrillon Holdings Pty Ltd	1,130,655	2,225	10,104,153	19,885
Shares issued pursuant to private placements	-	-	16,964,312	46,312
Issued upon acquisition of the assets of Novalux	5,035,852	8,007	-	-
Shares issued upon exercise of options	-	-	546,972	450
Transfers from share option reserve	-	-	-	784
Transaction costs on shares issued	-	(8)	-	(1,491)
Balance at end of financial year	128,559,267	157,066	122,392,760	146,842

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Fully paid ordinary shares participate in the wording up of the parent entity in proportion to the number of securities held.

Capital Management

Management controls the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continued as a going concern.

The Group’s debt and capital includes ordinary fully paid shares, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group’s capital by assessing the Group’s financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to share holders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
22. RESERVES				
Reserves				
Share-option reserve (a)	6,029	1,997	6,029	1,997
Foreign currency translation reserve (b)	(15,484)	(10,855)	-	-
	(9,455)	(8,858)	6,029	1,997
(a) Share-option reserve				
Balance at beginning of financial year	1,997	1,017	1,997	1,017
Issue of options to employees and officers under Employee Share Option Plan	3,614	1,249	3,614	1,249
Issued upon settlement of legal claim	-	515	-	515
Issued to debt holders upon acquisition of Novalux assets	418	-	418	-
Transfer to share capital upon exercise of options	-	(784)	-	(784)
Balance at end of financial year	6,029	1,997	6,029	1,997
(b) Foreign currency translation reserve				
Balance at beginning of financial year	(10,855)	(2,305)	-	-
Net exchange differences on translation of foreign controlled entities	(4,629)	(8,550)	-	-
Balance at end of financial year	(15,484)	(10,855)	-	-

Nature and purpose of reserves

Share-option reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 15 for further details of these plans. In addition, it is used to record the value of options issued as part of the consideration given for business combinations.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	Consolidated		Parent	
	2008	2007	2008	2007
	$	$	$	$
23. RETAINED EARNINGS				
Balance at beginning of financial year	(40,902)	(24,215)	(48,626)	(148)
Net loss attributable to members of the parent entity	(144,335)	(16,687)	(114,530)	(48,478)
Balance at end of financial year	(185,237)	(40,902)	(163,156)	(48,626)
24. MINORITY INTEREST				
Balance at beginning of financial year	3,131	2,634	-	-
Contributions of equity	-	1,136	-	-
Share of net loss	(3,131)	(639)	-	-
Balance at end of financial year	-	3,131	-	-
25. COMMITMENTS FOR EXPENDITURE				
Operating leases				
Not longer than 1 year	56	797	-	-
Between 1 and 2 years	8	522	-	-
Longer than 2 years and not longer than 5 years	-	74	-	-
	64	1,393	-	-
Capital commitments				
Not longer than 1 year	1,645	1,976	-	-
Between 1 and 2 years	-	69	-	-
Longer than 2 years and not longer than 5 years	-	40	-	-
	1,645	2,085	-	-

26. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group notes an action initiated by OEMSquared against the Company to recover USD $12 Million (AUD $16.2 Million) in commissions allegedly owed by Arasor Corporation Inc. arising from a written commission agreement. The Group continues to defend the claim and at the date of this report are confident that the likelihood of an unfavorable outcome is remote.

The Company is in default of its debt agreement with Sand Hill Capital Inc (‘Sand Hill’). in relation to the US $9.0 Million (AUD $12.2 Million) debt assumed upon acquisition of Novalux Inc’s assets. Under the terms of the agreement, Sand Hill can elect to become an unsecured creditor of Arasor International Ltd. At the date of signing this report, Sand Hill have not yet elected to do so.

At the date of this report, with the exception of the above, the Group is not aware of any Contingent Asset or Liability that should be disclosed in accordance with AASB 137.

27. AUDITORS REMUNERATION

	Consolidated		Parent	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Remuneration of the auditor for the parent entity for:				
Auditing or reviewing the financial report	91	114	91	114
Other services	6	-	-	-
Audit services provided by related practices of the parent entity auditor	106	45	-	-
Remuneration of other auditors of the subsidiaries for:				
Auditing or reviewing the financial report of the subsidiaries	-	101	-	-
	203	260	91	114

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES AND FINANCIAL INSTRUMENTS

Credit risk
There are no significant concentrations of credit risk within the Group.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
The Group's objective since May 2008 has been to de-leverage the Group's balance sheet by way of sale of non core assets and other initiatives. Excluding the US operations, at the date of signing this report, the Group now has no secured debt, minimal cash burn and small cash reserves. It is however noted that the Group's debt owed to Sand Hill must be dealt with in order to negate its current liquidity risk.

CONSOLIDATED (including discontinued operations)

	< 1year $'000	> 1 - < 3 years $'000	> 3 - < 5 years $'000	Total $'000
Year ended 31 December 2008				
FINANCIAL ASSETS				
Floating rate				
Cash assets	1,790	-	-	1,790
Weighted average effective interest rate	**3.36%**	**-**	**-**	
FINANCIAL LIABILITIES				
Fixed rate				
Obligations under finance leases *	152	-	-	152
Term loan	16,363	-	-	16,363
Insurance Funding	87	-	-	87
Chairman's guarantee *	2,519	-	-	2,519
Notes payables *	12,240	-	-	12,240
Weighted average effective interest rate	**8.45%**	**-**	**-**	
Floating rate				
Unsecured loans from relate parties	931	-	-	931
Weighted average effective interest rate	**3.54%**	**-**	**-**	

* Attributable to US operations

The Parent entity's only interest bearing debt is the premium funding account, due in less than one year totaling $87,000 with an effective interest rate of 6.30% (2007: 357,000 at 6.24%).

Presently, the groups income and cash flows are not materially exposed to changes in interest rates.

CONSOLIDATED

	< 1year $	> 1 - < 3 years $	> 3 - < 5 years $	Total $
Year ended 31 December 2007				
FINANCIAL ASSETS				
Fixed rate				
Notes receivable	-	741	-	741
Weighted average effective interest rate	**-**	**2.00%**	**-**	
Floating rate				
Cash assets	7,467	-	-	7,467
Weighted average effective interest rate	**3.57%**	**-**	**-**	
FINANCIAL LIABILITIES				
Fixed rate				
Obligations under finance leases	62	109	-	171
Term loan	2,183	4,991	4,990	12,164
Insurance Funding	357	-	-	357
Short term loan	156	-	-	156
Weighted average effective interest rate	**6.73%**	**8.60%**	**8.61%**	
Floating rate				
Bank line of credit	1,141	-	-	1,141
Unsecured loans from relate parties	841	-	-	841
Weighted average effective interest rate	**5.95%**	**-**	**-**	

29. BUSINESS COMBINATIONS

Name of business acquired	Principal activity	Date of acquisition	Cost of acquisition $'000
Novalux Inc. (asset acquisition)	Owner of "Necsel" platform, laser display technology	9/01/2008	8,615

Acquisitions of certain assets and liabilities of Novalux Inc.

On 9 January 2008, Arasor International Ltd ('Arasor') acquired certain assets and assumed certain liabilities of US based corporation Novalux Inc. The total cost of the combination was $8,615,000, which was satisfied by the issue of 5,035,852 Ordinary Shares in the Company and transaction costs totaling $608,000. In addition, 643,788 unlisted options with an exercise price of $1.59 and expiry date of 8 January 2013 were issued to the debt holders (Sand Hill Capital) upon assumption of the Company's liabilities. The acquisition is summarised below:

29. BUSINESS COMBINATIONS

	Consolidated	
	Recognised on acquisition $	**Carrying value $**
Other current assets	75	75
Property, plant and equipment	5,976	5,976
Intangible Assets	14,773	14,773
	20,824	20,824
Employee leave provisions	(12,209)	(12,209)
	(12,209)	(12,209)
Fair value of identifiable net assets	8,615	8,615
Cost of the combinations:		
Shares issued, at fair value	8,007	
Costs associated with the acquisitions	608	
Total cost of the combination	8,615	

30. INTEREST IN SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest 2008 %	2007 %
Parent entity			
Arasor International Ltd	Australia		
Subsidiaries			
Arasor International Group Holding Limited Company (AIG)	Cayman Islands	100	100
Arasor Cayman Acquisition Company Ltd	Cayman Islands	100	100
Arasor Acquisition Company Inc.	United States of America	100	100
Arasor Corporation, Inc	United States of America	100	100
Arasor GuangZhou Co., Limited	China	80	80
Arasor Shanghai Co., Limited	China	100	100
Bandwidth Foundry International Pty Ltd	Australia	100	100
Verrillon Holdings Pty Ltd	Australia	100	100
AOFR Pty Ltd	Australia	100	100

31. RELATED PARTY DISCLOSURE AND KEY MANAGEMENT PERSONNEL REMUNERATION

The following individuals are classified as key management personnel in accordance with AASB 124 'Related Party Disclosures':

Dr Simon Cao, Chairman (Resigned 24 April 2010)
Dr Larry Marshall, Executive Director (Resigned 21 October 2008)
Mr George SyCip, Non-Executive Director
Mr Parviz Tayebati, Non-Executive Director (Resigned 28 March 2008)
Mr Anthony Surtees, Non-Executive Director (Resigned 30 July 2008)
Mr Ian Neal, Non-Executive Director (Resigned 15 July 2008)
Mr Laurie Kan, Non-Executive Director (Resigned 17 December 2008)
Mr Zhu Xin Kun, Non-Executive Director (Resigned 17 December 2008)
Mr Simon Eckersley, Non-Executive Director (Resigned 15 May 2008)
Mr Edward Li, Non-Executive Director (Appointed 16 September 2008)
Mr Reginald Bancroft, Non-Executive Director and Company Secretary (Appointed 17 September 2008)
Mr William Mackenzie, Chief Executive Officer
Mr Mike Hong, Executive Vice President and General Manager, Wireless Solutions
Mr Yonglin Huang, Senior Vice President of Product Development (Resigned 13 February 2010)
Mr Jeffrey Cheng, Executive Vice President of Corporate Development (Resigned 3 July 2008)

The remuneration details of the above personnel can be found in remuneration report of the director's report. The totals of remuneration paid to KMP of the Group during the year are as follows:

	2009	2008
Consolidated group	**$**	**$**
Short-term employee benefits	1,667,130	1,650,978
Post employment benefits	-	-
Share-based payments	-	283,327
	1,667,130	1,934,305

The accounting records of the foreign subsidiaries have been insufficient to identify all transactions with executive officers who are considered key management personnel. It was noted that Abakus Communication Group (a Company associated with Mike Hong) was a party to a number of contracts with group entities during the year, however the total value of those transactions was unable to be quantified. At the balance date the total amount payable to Abakus Communications Group was $790,140.

31. RELATED PARTY DISCLOSURE (CONTINUED)

(a) Option holdings of Key Management Personnel

31 December 2007	Balance at beginning of period	Granted as remuner-ation	Options Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Simon Cao	-	-	-	-	-	N/A	N/A	N/A
Larry Marshall	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
George SyCip	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Parviz Tayebati	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Anthony Surtees	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Ian Neal	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Laurie Kan	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Zhu Xin Kun	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Simon Eckersley	125,334	-	-	-	125,334	23/01/09	11/10/06	23/01/09
Executives								
Mike Hong	-	1,000,000	-	-	1,000,000	4/11/12	2/02/08	4/11/12
Younglin Huang	-	250,000	-	-	250,000	4/11/12	5/07/08	4/11/12
Jeffrey Cheng	76,705	-	(76,705)	-	-	23/01/13	11/10/06	23/01/13
Jeffrey Cheng	-	700,000	-	-	700,000	4/11/12	2/02/08	4/11/12

Notes to the Financial Statements
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2008 continued

31. RELATED PARTY DISCLOSURE (CONTINUED)

(b) Option holdings of Key Management Personnel (Continued)

31 December 2008	Balance at beginning of period	Granted as remuner-ation	Options Exercised	Net change other	Balance at end of period	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Simon Cao	-	-	-	-	-	N/A	N/A	N/A
Larry Marshall	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
George SyCip	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Parviz Tayebati	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Anthony Surtees	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Ian Neal	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Laurie Kan	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Zhu Xin Kun	40,000	-	-	-	40,000	23/10/11	11/10/06	23/10/11
Simon Eckersley	125,334	-	-	-	125,334	23/01/09	11/10/06	23/01/09
Edward Li	-	-	-	-	-	N/A	N/A	N/A
Reginald Bancroft	-	-	-	-	-	N/A	N/A	N/A
Executives								
William Mackenzie	-	-	-	-	-	N/A	N/A	N/A
Mike Hong	1,000,000	-	-	-	1,000,000	04/11/12	02/02/08	04/11/12
Younglin Huang	250,000	-	-	-	250,000	04/11/12	05/07/08	04/11/12
Jeffrey Cheng	700,000	-	-	-	700,000	23/01/13	11/10/06	23/01/13

31. RELATED PARTY DISCLOSURE (CONTINUED)

(c) Shareholdings of Key Management Personnel (Consolidated)

31 December 2007	Balance at 1 Jan 07	On Exercise of Options	Net Change Other	Balance 31 Dec 07
Directors				
Simon Cao	4,349,237	-	74,480	4,423,717
Charles Mao	3,889,517	-	-	3,889,517
Larry Marshall	20,056	-	94,300	114,356
George SyCip	449,742	-	20,000	469,742
Parviz Tayebati	74,382	-	-	74,382
Anthony Surtees	-	-	30,797	30,797
Ian Neal	-	-	-	-
Laurie Kan	77,600	-	28,000	105,600
Zhu Xin Kun	-	-	-	-
Simon Eckersley	394,190	-	-	394,190
Executives				
Mike Hong	-	-	-	-
Yonglin Huang	-	-	-	-
Jeffrey Cheng	700,000	76,705	(479,205)	297,500

31. RELATED PARTY DISCLOSURE (CONTINUED)

(d) Shareholdings of Key Management Personnel (Consolidated) - Continued

31 December 2008	Balance at beginning of period	On Exercise of Options	Net Change Other	Balance 31 Dec 08
Directors				
Simon Cao	4,423,717	-	-	4,423,717
Larry Marshall	114,356	-	-	114,356
George SyCip	469,742	-	-	469,742
Parviz Tayebati	74,382	-	-	74,382
Anthony Surtees	30,797	-	-	30,797
Ian Neal	-	-	-	-
Laurie Kan	105,600	-	-	105,600
Zhu Xin Kun	-	-	-	-
Simon Eckersley	394,190	-	-	394,190
Edward Li	-	-	-	-
Reginald Bancroft	-	-	-	-
Executives				
William Mackenzie	-	-	-	-
Mike Hong	-	-	-	-
Yonglin Huang	-	-	-	-
Jeffrey Cheng	297,500	-	(25,000)	272,500

In addition to the above listed interests, the following directors have an indirect interest in the shares of Arasor International Ltd:

- New Commerce Investment Co. Ltd, an entity in which Simon Cao is a director, holds 12,468,726 Ordinary Fully Paid Shares in Arasor International Ltd.
- AZNA LLC, an entity in which Parviz Tayebati is a director, holds 305,918 Ordinary Fully Paid Shares in Arasor International Ltd.
- 1414 Holding Limited 8989 Holding Limited and 898 Management Limited, entities in which Laurie Kan is a director, hold 4,010,695, 357,574 and 129,020 Ordinary Fully Paid Shares in Arasor International Ltd respectively.
- Fortune Idea Capital Inc., an entity in which Zhu Xin Kun is a director, holds 2,673,987 Ordinary Fully Paid Shares in Arasor International Ltd.
- 8989 Holding Limited, an entity in which Simon Eckersley is a director, holds 4,010,695 Ordinary Fully Paid Shares in Arasor International Ltd.

31. RELATED PARTY DISCLOSURE (CONTINUED)

All shares held by the directors (with the exception of Simon Eckersley's holding and Laurie Kan's shareholding, which were purchased under the initial public offering) are subject to a 2 year escrow period from Arasor International Ltd's listing on 25 October 2006.

(h) Other related party disclosures – director related transactions

Chairman's guarantee
In accordance with the Company's Chairman's guarantee, Dr Simon Cao has provided Arasor Corporation Inc. with a loan of $2.5 Million (USD $1.745 Million). The loan has no fixed repayments and the funds provided at the balance date are part of the Chairman's $5.8 Million (US $4.0 Million) solvency guarantee . The Chairman has also guaranteed the Hao Lasertech deal, up to US $10.0 Million (AUD $14.5 Million).

Loan to related party
A party related to Dr S Cao granted Arasor Guangzhou Co. Ltd the amount of RMB 8.89 Million (AUD $1.47 Million) as a short term loan (of which, RMB 4.42 million [AUD $0.744 Million] was outstanding at the balance date), with the loan period being 1 year at the rate of Libor +1%.

(i) Other related party disclosures – intra-group transactions
Throughout the year ended 31 December 2008, sales and purchases have been made between Arasor Corporation Inc, Arasor Shanghai Co., Ltd, Arasor GuangZhou Co. Ltd and Bandwidth Foundry Pty Ltd. All sales/purchases transacted between the group have been eliminated on consolidation and have been entered into on an arms length basis. The total of intra-group sales/purchases for the year was $1,451,075.

32. SUBSEQUENT EVENTS

On the 26 February 2009, the Company announced it had requested a voluntary suspension in the trading of the Company's shares. The voluntary suspension was put in place to complete the Company's restructure and at the date of this report, the Company's shares remain in suspension.

Disposal of AOFR Pty Ltd
On 3 March 2009, the Company announced that it had disposed of AOFR Pty Ltd, its passive optical component business in Australia, to Aegis Lightwave Inc. (a U.S. based Company) for a consideration of $2.36 Million. The consideration was satisfied by a cash payment made by the purchaser.

To ensure the carrying amount of the group's investment in AOFR Pty Ltd matched the proceeds received, AOFR Pty Ltd's intangible's and property plant and equipment were impaired at the reporting date. The quantum of this impairment was a $13.14 Million write down to intangible assets and a $1.09 Million impairment to property plant and equipment.

AFOR Pty Ltd is presented in the Company's Australia geographical segment.

32. SUBSEQUENT EVENTS (CONTINUED)

Disposal of Bandwidth Foundry International Pty Ltd
On 5 November 2009, the Company announced that it had disposed of Bandwidth Foundry International Pty Ltd, its R&D facility located in Sydney Australia, for a consideration of $1, the payment of the Company's liabilities of $0.391 Million and Administrator costs of $0.102 Million.

To ensure the carrying amount of the group's investment in Bandwidth Foundry International Pty Ltd matched the proceeds received, Bandwidth Foundry Pty Ltd's property plant and equipment was impaired at the reporting date. The quantum of this impairment was $0.290 Million impairment to property plant and equipment.

Bandwidth Foundry International Pty Ltd is presented in the Company's Australia geographical segment.

On 5 February 2010, the Company announced the payment of the secured term loan in place in China with the Agricultural Bank of China. The resolution involved the payment of $18 Million (RMB 116 Million) to the bank (representing both principal and accrued interest) made by the Company's minority JV partner Guangzhou Nan Sha Assets Operation Co., Ltd ('NGAO). In exchange for the payment, the NGAO has assumed ownership of the Company's land and buildings in Guangzhou. Arasor maintains an ability to lease the land off the NGAO in order to continue to service its client base.

On 1 April 2010, the Company announced it had entered into an agreement to sell its Japan optical wafer production fabrication facility an assets to a US based multinational Company. The transaction provides for a consideration of US $0.75 Million (AUD $0.815 Million) and a manufacturing agreement to be put in place with the Company's Nansha facility located in Guanzhou, China.

33. DISCONTINUED OPERATIONS

Discontinuation of operations in US – Arasor Corporation Inc.

The Arasor group had made the decision to abandon its operations in the US. The decision was made (as disclosed in note 34) due to the severe asset deficiency of the entity, as well as insufficient working capital to continue its operations. The US operations were closed in March 2009 and all its employees were terminated at that time. The financial records of the US operations were incomplete at the time the employees were terminated and have not been maintained from that date. The directors are not aware of the current financial position of the US operations.

The business has been classified as discontinued in the body of the financials, as the directors believe this is the most appropriate way of presenting the Company's financials.

In order to reflect the abandonment decision made, the group has impaired several asset balances within the Company's accounts. A breakdown of the impairment taken (including the impairment expense booked in the Company's half year ended 30 June 2008) is as follows:

	AUD $'000
Property, plant and equpiment impairment (a)	1,470
Intangible impairment (b)	16,374
Other impairments	661
	18,505

(a) Post balance date, all remaining equipment held by Arasor has either been abandoned or disposed of to Necsel Intellectual Property Inc. (an entity not controlled by the Arasor Group, but associated with the Company's CEO Mr William Mackenzie) for a consideration of US $0.2 Million. This transaction was disclosed and agreed to by the Company's secured debt holder, Sand Hill Capital. Accordingly, the US's property, plant and equipment carrying amount has been reduced to US $0.2 Million at the end of the reporting period.

(b) Post balance date, certain Intellectual Property (IP) (including IP acquired in the Novalux transaction) has been sold to Necsel Intellectual Property Inc. (an entity not controlled by the Arasor Group, but associated with the Company's CEO Mr William Mackenzie) for a consideration of US $0.2 Million. This transaction was disclosed and agreed to by the Company's secured debt holder, Sand Hill Capital. Arasor maintains a licence to still use the relevant IP. All other patents have been abandoned due to insufficient working capital to fund renewals. In light of this, Arasor Corporation Inc's intangibles have been written down to US $0.2 Million.

In addition to the above, post balance date, no further amounts have been received by the Company with respect to its accounts receivable. Accordingly, the receivables in Arasor Corporation Inc. have been written down to nil. The Company continues to conduct legal action to recoup receivables from certain customers of the Company's discontinued wireless division.

All assets are reflected at their net realisable value.

33. DISCONTINUED OPERATIONS (CONTINUED)

The results of the US operations which have been included in the income statement are as follows. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

		Consolidated	
		2008 $'000	2007 $'000
Loss for the year from discontinued operations			
Revenue from operating activities		2,491	91,839
Cost of revenue from operating activities		(2,106)	(70,577)
Gross Profit		385	21,262
Impairment expense		(18,505)	-
Other income		20	300
Bad and doubtful debts expense		(52,515)	(11,425)
Research expenses		(9,683)	(7,368)
Sales and marketing costs		(2,348)	(2,304)
General and administration costs		(2,528)	(2,827)
Finance costs		(1,676)	(33)
Loss before income tax		(86,850)	(2,395)
Income tax expense		-	-
Loss for the year from discontinued operations		(86,850)	(2,395)
Earnings per share:		*Cents*	*Cents*
From discontinued operations:			
Basic earnings per share	**5**	(68.10)	(2.23)

Cash flows from discontinued operations	2008 $'000
Net cash flows from operating activities	(3,891)
Net cash flows from investing activities	3,407
Net cash flows from financing activities	(1,017)
Net cash flows	(1,501)

The major classes of assets and liabilities comprising of the Company's US operations at balance date are as follows:

	2008 $'000
Cash and cash equivalents	49
Other receivables	508
Property, plant and equipment (net)	289
Intangible assets (net)	289
Total assets classified as discontinued operations	1,135
Trade and other payables	20,567
Interest bearing liabilities	12,392
Chairmans guarantee	2,519
Total liabilities associated with discontinued operations	35,478
Net assets classified as discontinued operations	(34,343)

As discussed in note 26, Sand Hill Capital Inc. has the ability to become an unsecured creditor of Arasor International Ltd (as Arasor Corporation Inc. has defaulted on the terms of the note). As no notice of intent has been received at the date of this report, the US $9.00 Million (AUD $13.04 Million) owed on the notes has been included in Group's discontinued operations.

34. GOING CONCERN

The annual report for the Consolidated Entity and Parent Entity has been prepared on a going concern basis.

Notwithstanding this method of preparation, it is noted that the Group as at the balance date has a net asset deficiency of $37.6 Million.

The directors believe that the group continues to be a going concern, noting the following key issues:

34. GOING CONCERN (CONTINUED)

- The Company still has an uncalled portion of the guarantee provided by the Company's Chairman, Dr Simon Cao, to the value of $17.3 Million (US $12 Million).

- The directors intend to place the Company's beneficially owned subsidiary, Arasor Corporation Inc., into administration when sufficient working capital is available. Arasor Corporation is the only entity within the group at the date of signing this report that no longer trades as a going concern and is largely the reason for the group's net asset deficiency.

- The debt holders in the US ('Sand Hill Capital') continues to work with the Company in relation to its secured debt. Whilst Sand Hill Capital's secured claim is limited to the assets of Arasor Corporation Inc., it has ability to become an unsecured creditor in Arasor International Ltd. However, with the uncalled chairman's guarantee and continuing proceeds from asset sales, the directors believe that the group would be able to reach a satisfactory outcome with Sand Hill Capital.

- As announced on 5 February 2010, the term loan in place with the Agricultural Bank of China has been settled by way of an asset swap, which involved the Nansha JV's minority partner Guangzhou Nan Sha Assets Operation Co., Ltd ('NGAO') taking back the land and buildings located in the Company's Guangzhou Manufacturing Facility. At the same time, the NGAO repaid the loan owed to the bank in cash of $18 Million (RMB 116 Million) including principal and accrued interest.

Noting the above points, at the time of preparing this report, the group is continuing to implement its revised operating strategy with a focus on its operations in China and the Company's Joint Venture with ZTE.

No adjustments have been made to the financial report relating to recoverability and classification of recorded asset amounts and classification of liabilities that might be reclassed if the entity does not continue as a going concern.

Directors' Declaration

In accordance with a resolution of the directors of Arasor International Ltd, I state that:

1. In the opinion of the directors:

   a. the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

      i. giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

      ii. complying with Accounting Standards and Corporations Regulations 2001; and

   b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 31 December 2008.

On behalf of the board

Mr Reginald Bancroft
Director

30 April 2010

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ARASOR INTERNATIONAL LIMITED

Report on the financial report

We have audited the accompanying financial report of Arasor International Limited (the "Company"), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial statements 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors also state, in the notes to the financial statements, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ARASOR INTERNATIONAL LIMITED Cont

Auditor's responsibility Cont

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 and fair presentation of the financial report 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 complied with applicable independence requirements of the Corporations Act 2001.

Basis for disclaimer of auditor's opinion

As stated in Note 33 to the financial statements, the US operations were closed in March 2009 and the employees were terminated at that time. The financial records of the US operations were incomplete at the time the employees were terminated and have not been maintained from that date. As a consequence, there is no further financial information available for this company. The incomplete US accounting records may also have the implication of affecting the completeness of transactions in the parent entity.

The abandonment of the US operations occurred prior to the completion of our audit and the directors of the parent entity are not aware if the current financial position of those US operations have changed. As the accounting records are not adequate to permit the application of necessary auditing procedures, we are unable to obtain all the information and explanations we require in order to form an opinion on the financial report.

Disclaimer of auditor's opinion

In our opinion, because of the existence of the limitation on the scope of our work, as described in the preceding paragraphs, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the financial report of Arasor International Limited is in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2008 and of their performance for the year ended on that date;

b complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

c compliance with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without further qualifying our opinion, we draw attention to Note 34 in the financial report which indicates that the consolidated entity incurred a net loss of $144,335,000 during the year ended 31 December 2008 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by $35,781,000. In addition, the parent entity has guaranteed the unsecured debt from Sand Hill Capital Inc which was assumed upon the acquisition of the assets of Novalux Inc. Should this be called upon the parent entity may not be able to pay its debts as and when they fall due.

These conditions, along with other matters as set forth in Note 34, indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as a going concern and therefore the company and consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2008. 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.

Basis for disclaimer of auditor's opinion on the remuneration report

As noted in the Basis for disclaimer of auditor's opinion above, the US operations were abandoned in March 2009 and the accounting records are incomplete. As a consequence, there is no reliable financial information available for this company to be able to form an opinion on the amount of remuneration paid during the year ended 31 December 2008.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ARASOR INTERNATIONAL LIMITED Cont

Disclaimer of auditor's opinion on the remuneration report

In our opinion, because of the existence of the limitation on the scope of our work, as described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the Remuneration Report of Arasor International Limited for the year end 31 December 2008, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J Gray
Partner

Signed at Wayville on this 30th day of April 2010