Arasor International Ltd

ABN 29 119 999 441

Interim Financial Report

for the half year ended 30 June 2009

Contents of the Interim Financial Report

Directors' Report

The directors of Arasor International Ltd (Arasor) submit their report for the half-year ended 30 June 2009.

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

Mr Reginald Bancroft, Chairman and Company Secretary
Dr Simon Cao, Ex-Chairman (Resigned 23 April 2010)
Mr George SyCip, Non-Executive Director
Mr Edward Li, Non-Executive Director

Review of Operations

During the half year under review, Arasor continued to consolidate its operations and reduce costs. The Group's net loss from continuing operations (excluding discontinued operations) was ($989,085) [2008: ($2,173,789)], resulting in a significant decrease in cash burn experienced by the Group.

The highlights during the half year included the disposal of the Group's investment in AOFR Pty Ltd. Whilst the disposal itself was neutral on the results for the half year, the net proceeds of $2.37 Million provided invaluable working capital for Arasor. The Board also made recommendations to dispose of the Company's investment in Bandwidth Foundry International Pty Ltd and its Japanese optical wafer production fabrication facility assets in an effort to concentrate on the opportunities available to the Group in the joint venture in Tianjin formed with ZTE International.

Auditor's independence declaration

The auditor's independence declaration is set out on page 4 and forms part of the directors' report for the half year ended 30 June 2009.

Signed in accordance with a resolution of the directors.

Mr Reginald Bancroft
Chairman

9 December 2010

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

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 half-year ended 30 June 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

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S J Gray
Partner

Adelaide, 9 December 2010

Consolidated Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 30 JUNE 2009

	Note	Consolidated Group Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
Other income	3 (a)	2,279	732
Employee benefits expense	3 (b)	(652,798)	(1,652,160)
Professional fees		(149,337)	(117,855)
Insurance expense		(51,221)	(235,001)
Share of loss of joint venture		(97,255)	-
Other expenses		(40,752)	(169,505)
Loss before income tax expense		(989,084)	(2,173,789)
Income tax expense		-	-
Loss for the period from continuing operations		(989,084)	(2,173,789)
Loss for the period from discontinued operations	4	(3,669,300)	(85,381,745)
Loss for the period		(4,658,384)	(87,555,534)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		10,866,402	(4,960,904)
Total comprehensive income for the period		6,208,018	(92,516,438)
Loss attributable to:			
Owners of the parent		(4,658,384)	(85,387,289)
Non-controlling interests		-	(2,168,245)
		(4,658,384)	(87,555,534)
Earnings/(loss) per share:		*Cents*	*Cents*
From continuing and discontinued operations:			
Basic earnings per share		(3.62)	(68.83)
From continuing operations:			
Basic earnings per share		(0.77)	(1.71)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2009

	Note	Consolidated 30 June 2009 $	Consolidated 31 December 2008 $
CURRENT ASSETS			
Cash and cash equivalents		127,087	1,790,038
Trade and other receivables		4,823	4,088,091
Inventories		-	378,969
Other		69,127	142,412
Discontinued operations	4 (b)	-	1,134,747
		201,037	7,534,257
Non current assets classified as held for sale	6	657,209	-
TOTAL CURRENT ASSETS		858,246	7,534,257
NON-CURRENT ASSETS			
Available-for-sale investments		-	46,455
Property, plant and equipment		-	18,249,057
Interest in joint venture		209,155	344,894
Intangible assets		-	1,085,389
TOTAL NON-CURRENT ASSETS		209,155	19,725,795
TOTAL ASSETS		1,067,401	27,260,052
CURRENT LIABILITIES			
Trade and other payables		613,948	8,779,951
Short-term borrowings		-	17,380,883
Other current liabilities		-	1,402,133
Discontinued operations	4 (b)	29,063,645	35,477,684
		29,677,593	63,040,651
Liabilities directly associated with assets classified as held for sale	6 (c)	811,339	-
TOTAL CURRENT LIABILITIES		30,488,932	63,040,651
NON-CURRENT LIABILITIES			
Long-term provisions		-	305,081
Other non-current liabilities		-	136,667
Financial liabilities		1,403,326	1,403,326
TOTAL NON-CURRENT LIABILITIES		1,403,326	1,845,074
TOTAL LIABILITIES		31,892,258	64,885,725
NET ASSETS		(30,824,857)	(37,625,673)
EQUITY			
Contributed equity		157,066,028	157,066,028
Retained earnings		(189,895,039)	(185,236,655)
Reserves		2,004,154	(9,455,046)
TOTAL EQUITY		(30,824,857)	(37,625,673)

The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 30 JUNE 2009

	Consolidated					
	Share Capital Ordinary $	Retained Earnings $	Foreign Currency translation Reserve $	Share Option Reserve $	Non-controlling interest $	Total $
Balance at 1 January 2008	146,842,064	(40,902,494)	(10,855,696)	1,997,421	3,130,801	100,212,096
Total comprehensive income for the period	-	(85,387,289)	(4,960,904)	-	(2,168,245)	(92,516,438)
Shares issued for the acquisition of the assets of Novalux Inc.	8,007,005	-	-	-	-	8,007,005
Options issued for the acquisition of Novalux Inc.	-	-	-	417,605	-	417,605
Fair value of share based payments	-	-	-	1,443,094	-	1,443,094
Balance at 30 June 2008	154,849,069	(126,289,783)	(15,816,600)	3,858,121	962,556	17,563,363
Balance at 1 January 2009	157,066,028	(185,236,655)	(15,484,327)	6,029,281	-	(37,625,673)
Total comprehensive income for the period	-	(4,658,384)	10,866,402	-	-	6,208,018
Fair value of share based payments	-	-	-	592,798	-	592,798
Balance at 30 June 2009	157,066,028	(189,895,039)	(4,617,925)	6,622,079	-	(30,824,857)

The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial report.

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 30 JUNE 2009

	Consolidated	
	Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	2,269,414	23,701,140
Payments to suppliers and employees	(4,159,935)	(24,824,118)
Finance costs	-	(1,231,703)
Interest received	2,279	70,213
NET CASH (USED IN) OPERATING ACTIVITIES	(1,888,242)	(2,284,468)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from the sale/abandonment of subsidiaries	447,501	-
Payments for property, plant and equipment	-	(632,206)
Payments on amounts due to related parties	-	(547,064)
Receipts on amounts due from related parties	-	49,753
NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES	447,501	(1,129,517)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	241,140
Repayment of borrowings	(87,277)	(1,618,491)
NET CASH USED IN FINANCING ACTIVITIES	(87,277)	(1,377,351)
Net increase/(decrease) in cash and cash equivalents	(1,528,018)	(4,791,336)
Net foreign exchange differences	(134,933)	(885,267)
Cash at the beginning of the reporting period	1,790,038	7,466,641
CASH AT THE END OF THE REPORTING PERIOD	127,087	1,790,038

The consolidated statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial report.

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting entity

Arasor International Ltd (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 30 June 2009 comprises the Company and its subsidiaries (the "Group") and the Group's interest in a joint venture.

The consolidated annual financial report of the Group as at and for the year ended 31 December 2008 is available upon request from the Company's registered office.

b. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards including AASB 134: Interim Financial Reporting and the Corporations Act 2001. Compliance with Australian Accounting Standards ensures that the financial statements and notes comply with International Financial Reporting Standards.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Group as at and for the year ended 31 December 2008 together with any public announcements made during the half year.

c. Significant accounting policies

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the consolidated financial report as at and for the year ended 31 December 2008.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 8 Operating Segments
- AASB101 Presentation of Financial Statements

AASB 8 Operating Segments

AASB 8 replaced AASB 114 Segment Reporting upon its effective date. Information regarding the operating segments of the Group is presented in Note 2.

AASB101 Presentation of Financial Statements

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

d. Significant accounting judgements and key estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Except as described below, in preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual report for the year ended 31 December 2008.

In the half-year ended 30 June 2009, management reassessed its estimates in respect of:

Key Estimates — Impairment

The Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to an impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

2. SEGMENT INFORMATION

The directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources and have concluded at this time that there are no separately identifiable segments. This decision has been made specifically in light of the reduced size and scope of the Group's operations given the restructure of the Group including its abandoned and discontinued operations as disclosed throughout the report.

3. REVENUE AND EXPENSES

	Consolidated	
	Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
(a) Other Income		
Interest income	2,279	732
	2,279	732
(b) Employees benefits expense		
Wages, salaries, directors fees and other remuneration expenses	60,000	209,066
Share-based payments expense	592,798	1,443,094
	652,798	1,652,160

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

4. DISCONTINUED OPERATIONS

	Consolidated	
	Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
Net profit/loss		
Arasor, Japan Branch (refer note 6 (a))	(391,296)	(542,849)
AOFR Pty Ltd (refer to note 5)	(230,636)	(4,094,463)
Bandwidth Foundry International Pty Ltd (refer note 6 (b))	(262,907)	(710,506)
Arasor Corporation Inc. (b)	(765,063)	(67,495,363)
China based entities	-	(10,370,319)
Gain/(loss) on disposal/abandonment		
Abandonment of Chinese entities (a)	(2,096,226)	-
Disposal of AOFR Pty Ltd (refer note 5)	76,828	-
	(3,669,300)	(83,213,500)

(a) China based subsidiriaes and branches

On the 1 January 2009, due to insufficient working capital Arasor International Ltd abandoned its investments in its Chinese subsidiaries and branches, comprising of Arasor Beijing (a branch of Arasor Corporation Inc.), Arasor GuangZhou Co., Limited and Arasor Shanghai Co., Limited. Whilst the board continued to pursue opportunities in these entities up until mid 2010 in substance Arasor lost control of these investments for accounting purposes at the beginning of 2009. The loss represents the book value of net assets that the entities contributed to the Arasor Group at the date of the decision and is reconciled as follows:

	Consolidated
	Half year ended 30 June 2009 $
Abandonment of Chinese entities	
Net asset deficiency derecognised relating to Arasor GuangZhou Co., Limited and Arasor Shanghai Co., Limited	(2,071,783)
Net assets abondoned in Arasor Beijing	(84,858)
Historical foreign exchange movements in relation to the above	60,415
	(2,096,226)

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

(b) Arasor Corporation, Inc.
As previously disclosed in the Group's annual financial statements for 2008, the board formally made the decision to discontinue its operations in the United States ('US').

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

As the financial records for the entity were not accurately kept beyond 31 December 2008, the amounts recorded in the Group's statement of financial position at the reporting date are the amounts booked to 31 December, modified for certain events. These events included:

- The payment US$0.2 Million paid by Necsel Intellectual Property Inc. (an entity not controlled by the Arasor Group, but associated with the Group's CEO Mr William Mackenzie) as consideration for certain IP to the value of US $0.2 Million;
- The acquisition of the Company's remaining plant equipment for the consideration of US $0.2 Million; and
- The payment of certain statutory liabilities owed by the group (principally unpaid salaries and wages) with a portion of the proceeds from AOFR Pty Ltd.

After accounting for these transactions, the net liability booked as discontinued in the Company's estimated liabilities are detailed as follows:

	Estimated at 30 Jun 2009 $	Estimated at 31 Dec 2008 $
Cash and cash equivalents	-	48,967
Other receivables	-	508,413
Property, plant and equipment (net)	-	288,684
Intangible assets (net)	-	288,684
Trade and other payables	(16,294,300)	(20,567,056)
Interest bearing liabilities	(10,602,565)	(12,391,865)
Ex-chairmans guarantee (Dr. Simon Cao)	(2,166,780)	(2,518,764)
Net liabilities	(29,063,645)	(34,342,937)

The entities net loss related to general administration clean up costs of $28,109, an impairment expense to receivables of $150,009 and an imputed interest expense of $586,945.

5. DISPOSAL OF SUBSIDIARY
On 3 March 2009, the Group disposed of 100% of its beneficial interest in AOFR Pty Ltd. Proceeds of $2,371,167 were received in cash in relation to the sale.

The loss for the half year period related to AOFR Pty Ltd is analysed as follows:

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

	2 months ended 3 Mar 2009 $	Half year ended 30 June 2008 $
Revenue from operating activities	1,209,523	5,419,252
Cost of revenue from operating activities	(879,951)	(4,096,293)
Gross Profit	329,572	1,322,959
Impairment expense	-	(2,967,748)
Other income	106,507	60,788
Research expenses	(272,981)	(785,315)
Sales and marketing costs	(101,767)	(239,922)
General and administration costs	(291,967)	(1,485,225)
Loss before income tax	(230,636)	(4,094,463)
Income tax expense	-	-
Loss for the period from AOFR Pty Ltd	(230,636)	(4,094,463)

The net assets of AOFR Pty Ltd at the date of disposal was as follows:

	3 Mar 2009 $
Net assets disposed	2,294,339
Gain on disposal	76,828
Total consideration	2,371,167

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

6. NON-CURRENT ASSETS HELD FOR SALE
(a) Arasor, Japan Branch
During the reporting period, the board resolved to enter into arrangements to dispose of its operations in Japan. Accordingly, the results have been classified as discontinued in the statement of comprehensive income. The entities assets and liabilities have been classified as held for sale.

The loss for the half year period related to, Arasor Japan is analysed as follows:

	Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
Revenue from operating activities	3,256	95,327
Cost of revenue from operating activities	-	(26,235)
Gross Profit	3,256	69,092
Research expenses	(394,552)	(611,941)
Loss before income tax	(391,296)	(542,849)
Income tax expense	-	-
Loss for the period from Arasor, Japan Branch	(391,296)	(542,849)

The summarised statement of financial position of the disposal group is detailed as follows:

	30 Jun 2009 $
Cash and cash equivalents	17,882
Property, plant and equipment at fair value to sell	120,538
Other current assets	92,824
Trade and other payables	(287,467)
Net asset deficiency	(56,223)

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

(b) Bandwidth Foundry International Pty Ltd
During the reporting period, the board resolved to formally enter into arrangements to dispose of Bandwidth Foundry International Pty Ltd. Accordingly, the business group's results have been classified as discontinued and its assets and liabilities have been classified as held for sale.

The loss for the half year period related to Bandwidth Foundry International Pty Ltd is as follows:

	Half year ended 30 June 2009 $	Half year ended 30 June 2008 $
Revenue from operating activities	507,733	128,364
Cost of revenue from operating activities	(10,712)	(117,546)
Gross Profit	497,021	10,818
Other income	-	163,333
Research expenses	(759,928)	(884,657)
Loss before income tax	(262,907)	(710,506)
Income tax expense	-	-
Loss for the period from Bandwidth Foundry International Pty Ltd	(262,907)	(710,506)

The summarised statement of financial position of the disposal group is detailed as follows:

	30 Jun 2009 $
Cash and cash equivalents	23,420
Trade and other receivables	30,291
Inventories	12,679
Other	42,227
Property, plant and equipment	317,349
Trade and other payables	(203,897)
Provisions (Current)	(153,242)
Deferred income (Current)	(166,734)
Net asset deficiency	(97,907)

The reconciliation back to the statement of financial position in relation to the Arasor Group held for sale entities is listed below:

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

(c) Reconciliation of non current assets held for sale to statement of financial position

	30 Jun 2009 $
Bandwidth Foundry International Pty Ltd net asset deficiency (refer note 6 (b))	(97,907)
Arasor, Japan Branch net assets deficiency (refer note 6 (a))	(56,223)
Other current assets	(154,130)
Represented in the statement of financial position by:	
Assets classified as held for sale	657,209
Liabilities directly associated with assets classified as held for sale	(811,339)
	(154,130)

7. SUBSEQUENT EVENTS

On 5 November 2009, the Company announced that it had disposed of Bandwidth Foundry International Pty Ltd, its research and development 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.

On 1 April 2010, the Company announced it had entered into an agreement to sell its Japanese optical wafer production fabrication facility and assets to a US based multinational Company. The transaction provides for a consideration of US $0.75 Million (AUD $0.815 Million).

8. GOING CONCERN

The annual report for the Consolidated 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 $30.82 Million.

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

- The Company still has an uncalled portion of the guarantee provided by the Company's Ex-Chairman, Dr Simon Cao, to the value of over $14.8 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 the reason for the group's net asset deficiency.

- The debt holders in the US ('Sand Hill Capital') continue 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 of 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.

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 30 JUNE 2009

- The Company continues to pursue legal action against uncollected receivables relating to Indian clients of Arasor Corporation and as relayed to the ASX on 17 March 2010, wind up petitions for the clients have been lodged with the Indian courts in an effort to resolve the issue. The book value of the receivables (fully provided for with a provision for doubtful debts) is approximately US $26.0 Million.

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 through the Company's Joint Venture with ZTE International.

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 reclassified if the entity does not continue as a going concern.

Directors' Declaration

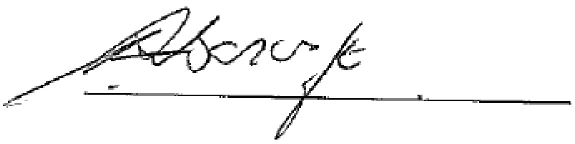
In accordance with a resolution of the directors of Arasor International Ltd, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001 , including:
   (i) give a true and fair view of the financial position as at 30 June 2009 and the performance for the half-year ended on that date of the consolidated entity; and
   (ii) comply with Accounting Standard AASB 134 Interim Financial Reporting and the 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.

On behalf of the Board



Mr Reginald Bancroft
Chairman

9 December 2010

Grant Thornton

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

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

We have reviewed the accompanying interim financial report of Arasor International Limited ("Company"), which comprises consolidated statement of financial position as at 30 June 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim 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 interim 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.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Arasor International Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Basis for disclaimer of conclusion

As stated in Note 4(b) to the interim 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 discontinuation 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 a conclusion on the financial report.

Disclaimer conclusion

Based on our review, which is not an audit, 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 a conclusion as to whether the interim financial report of Arasor International Limited is in accordance with the Corporations Act 2001, including:

a giving a true and fair view of the consolidated entity's financial position as at 30 June 2009 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without further qualifying our conclusion, we draw attention to Note 8 in the interim financial report which indicates that the consolidated entity incurred a net loss of $4,658,384 during the half-year ended 30 June 2009 and, as of that date; the consolidated entity's current liabilities exceeded its total assets by $29,421,531.

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These conditions, along with other matters as set forth in Note 8, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

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GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants

S J Gray
Partner

Adelaide, 9 December 2010