

Morning Star Holdings (Australia) Limited

ABN 98 008 124 025

30 April 2009

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Level 8
2 The Esplanade
PERTH WA 6000

Dear Sir/Madam

NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY MEMORANDUM

Please find attached a copy of the Company's Notice of Annual General Meeting and Explanatory Memorandum and 2008 Annual Report dispatched to shareholders today.

For further information, please contact:

Richard Rossiter or Theo Renard
Morning Star Holdings (Australia) Limited
T: (+61) 2 8249 4542
F: (+61) 2 8249 4001
E: info@msh.net.au

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

NOTICE OF ANNUAL GENERAL MEETING

AND

EXPLANATORY MEMORANDUM

Date of Meeting: 29 May 2009

Time of Meeting: 11.00 am (EST)

Place of Meeting: Level 2
3 Spring Street
Sydney NSW 2001

This Notice of Annual General Meeting and Explanatory Memorandum should be read in their entirety. If shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

NOTICE OF ANNUAL GENERAL MEETING
MORNING STAR HOLDINGS (AUSTRALIA) LIMITED
ABN 98 008 124 025

Notice is hereby given that the Annual General Meeting of Morning Star Holdings (Australia) Limited ("**Morning Star**" or "**Company**") will be held at Level 2, 3 Spring Street, Sydney NSW 2001 on 29 May 2009 at 11.00am (EST) to conduct the following business.

The Explanatory Memorandum which accompanies and forms part of this Notice of Meeting describes the various matters to be considered and contains a glossary of defined terms that are not defined in full in this Notice of Meeting.

AGENDA

Financial Statements and Reports

To receive and consider the financial statements, the Directors' reports and auditor's report for the Company and its controlled entities for the year ended 31 December 2008

RESOLUTIONS

1. Adoption of Remuneration Report

To consider and, if thought fit, to pass with or without amendment, the following as an **ordinary resolution**:

"That the remuneration report for the Company and its controlled entities for the year ended 31 December 2008 be adopted"

The vote on this resolution is advisory only and does not bind the directors or the Company.
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2. Election of Mr Clive Sinclair-Poulton as a Director

To consider and, if though fit, to pass with or without amendment, the following as an **ordinary resolution**:

"That Mr Sinclair-Poulton, having been appointed as a Director under the Company's Constitution by resolution of the Board of Directors, and being eligible, offers himself for election, be elected as a Director of the Company."

3. Election of Mr Theo Renard as a Director

To consider and, if though fit, to pass with or without amendment, the following as an **ordinary resolution**:

"That Mr Theo Renard, having been appointed as a Director under the Company's Constitution by resolution of the Board of Directors, and being eligible, offers himself for election, be elected as a Director of the Company."

4. Issue of Shares to Mr Clive Sinclair-Poulton under the Share Plan

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

"That, subject to Resolution 2 being approved,, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 250,000 Shares at an issue price of \$0.15 per Share to Mr Clive Sinclair-Poulton and the provision of a loan for up to \$37,500 to acquire up to 250,000 Shares, in accordance with the Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or if it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

5. Issue of Shares to Mr Theo Renard under the Share Plan

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

"That, subject to the Resolution 3 being approved, for the purposes of subsection 208(1) of the Corporations Act, Listing Rule 10.14 and for all other purposes, Shareholders approve and authorise the issue of up to 1,000,000 Shares at an issue price of \$0.15 per Share to Mr Theo Renard and the provision of a loan for up to \$150,000 to acquire up to 1,000,000 Shares, in accordance with the Share Plan and otherwise on the terms and conditions set out in the Explanatory Memorandum."

The Company will disregard any votes cast on this resolution by a director of the Company (except one who is ineligible to participate in any employee incentive scheme in relation to the Company) and any associate of such director. However, the Company need not disregard a vote if it is cast by a director as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or if it is cast by a person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

6. Change of Auditor

To consider and, if thought fit, to pass the following as an **ordinary resolution**:

"That HLB Mann Judd be appointed as the Company's auditor to replace Ernst & Young who retires at this meeting. HLB Mann Judd has been nominated for appointment and has consented to act as auditor."

Other Business

To transact any other business that may be lawfully brought forward in accordance with the constitution of the Company and the Corporations Act.

BY ORDER OF THE BOARD



Grant Button
Chairman

20 April 2009

Legal\109234333.1

EXPLANATORY MEMORANDUM
MORNING STAR HOLDINGS (AUSTRALIA) LIMITED
ABN 98 008 124 025

1. Financial Report and Directors' Report

The Corporations Act and the constitution of the Company require the following reports in respect to the financial year of the Company ended 31 December 2008 to be laid before the meeting:

- The Financial Report (which includes the financial statements and Directors' declaration); and
- The Directors' Report, the Corporate Governance Statement and the Auditor's Report.

Shareholders will be given a reasonable opportunity at the Meeting to ask questions and make comments on these Reports and on the business, operations and management of the Company and the consolidated group.

There is no requirement in the Corporations Act or in the Company's constitution for shareholders to approve the Financial Statements and Reports.

2. Resolution 1 - Remuneration Report

The Corporations Act requires that the section of the Directors' Report dealing with the remuneration of the Directors and senior executives ('Remuneration Report') be put to shareholders.

This resolution is an 'advisory only' resolution which does not bind the Directors or the Company.

Following consideration of the Remuneration Report, the Chairman will give Shareholders a reasonable opportunity to ask questions about or make comments upon the Remuneration Report.

3. Resolution 2 - Election of Mr Clive Sinclair-Poulton

The Company's Constitution and the Corporations Act require that any Director appointed by the Directors holds office only until the next Annual General Meeting and is then eligible for re-election.

Mr Sinclair-Poulton was appointed as a Director of the Company on 25 August 2008 by resolution of the Board of Directors and being eligible, has offered himself for re-election as a Director.

The remaining directors recommend to shareholders that Mr Sinclair-Poulton be re-elected.

4. Resolution 3 - Election of Mr Theo Renard

The Company's Constitution and the Corporations Act require that any Director appointed by the Directors holds office only until the next Annual General Meeting and is then eligible for re-election.

Mr Renard was appointed as a Director of the Company on 01 October 2008 by resolution of the Board of Directors and being eligible, has offered himself for re-election as a Director.

The remaining directors recommend to shareholders that Mr Renard be re-elected.

5. Resolutions 4 and 5 - Issue of Shares to Directors under the Share Plan

5.1 Details of proposed issues of Shares to Directors

The Company proposes to issue Shares to two directors of the Company, Mr Sinclair-Poulton and Mr Renard, in accordance with the terms of the Share Plan.

The proposed issue of Shares to the Recipient Directors (Mr Sinclair-Poulton and Mr Renard) is intended to:

- (a) provide an appropriate and adequate incentive for the Directors;
- (b) ensure that the Company may retain the services of the Directors; and
- (c) reinforce the commitment of the Directors to the Company.

The Recipient Directors will only benefit from an issue of Shares under the Share Plan when there is an improvement in the Company's share price since the date on which they were offered the Shares.

Resolutions 4 and 5 seek shareholder approval for the issue of Shares to the Recipient Directors as follows:

Name of Director	Maximum Number of Shares to be Issued
C. Sinclair-Poulton	250,000
T. Renard	1,000,000

The number of Shares proposed to be issued to the Recipient Directors reflects the level of commitment provided or to be provided by each Director to the Company, taking into account the responsibilities of each Director and the time commitments required from each Director. The number of Shares proposed to be issued to the Recipient Directors also reflects the value the Board feels that each Director brings to the enhancement of the Company.

The issue price of the Shares offered to the Recipient Directors under the Share Plan is \$0.15, being greater than the weighted average price of Shares during the 5 day trading period immediately before the date on which the Shares were offered to the Directors, being \$0.085, being 2 October 2008.

The Shares to be issued pursuant to Resolutions 4 and 5 may not be transferred or otherwise dealt with and will not be quoted until the later to occur of the following:

- (a) the loan amount in respect of the relevant share being paid; and
- (b) in respect of:
 - (i) one half of the Shares issued (**Tranche 1**), 12 months after the date of issue of the Shares; and
 - (ii) the remaining one half of the Shares issued (**Tranche 2**), 24 months after the date of issue of the Shares.

The Shares to be issued pursuant to Resolutions 4 and 5 are in addition to the fee and remuneration packages payable by the Company to the Recipient Directors. In calculating the fee and remuneration packages provided to the Recipient Directors as set out in section 5.2(g) of the Explanatory Memorandum, the Board has taken into consideration the issue of Shares proposed in Resolutions 4 and 5. The Board considers that the appropriate remuneration package for each of the Directors comprises both the remuneration set out in 5.2(g) and the Shares to be issued if Resolutions 4 and 5 are passed by Shareholders. Although issuing shares to non-executive directors does not generally comply with corporate governance principles, given the size of the Company, the Board considers it appropriate for part of the remuneration package to comprise non-cash, incentive-based remuneration.

5.2 Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits the Company from giving a financial benefit to a related party of the Company unless either:

- (a) the giving of the financial benefit falls within one of the nominated exceptions of the provisions; or
- (b) prior shareholder approval is obtained to the giving of the financial benefit.

For the purposes of Chapter 2E, each Recipient Director is a related party and the issue of Shares and provision of loans by the Company to fund payment of the subscription price of the Shares constitutes the giving of a financial benefit. Accordingly, Shareholder approval is required.

In accordance with the requirements of Chapter 2E, and in particular with section 219, of the Corporations Act, the following information is provided to Shareholders to allow them to assess the proposed issue of Shares and the provisions of loans by the Company to fund payment of the subscription price of the Shares:

- (a) the Recipient Directors are each related parties of the Company to whom proposed Resolutions 4 and 5 would permit the financial benefit to be given;
- (b) the nature of the financial benefit to be given to Mr Sinclair-Poulton is the issue of 250,000 Shares and a loan in respect of those Shares, being \$37,500 as at the date of this Notice of Meeting;
- (c) the nature of the financial benefit to be given to Mr Renard is the issue of 1,000,000 Shares and a loan in respect of those Shares, being \$150,000 as at the date of this Notice of Meeting;
- (d) the Shares will be issued and the loans will be provided under the Share Plan;

- (e) as at the date of this Notice, the capital structure of the Company is as follows:

Capital	Number
Ordinary Shares	104,707,809

If Shareholders approve all resolutions in this Notice and all Shares are issued as contemplated by this Notice, the issued capital of the Company would be as follows:

Capital	Number
Ordinary Shares	105,957,809

If Shareholders approve the issue of 1,250,000 Shares to Recipient Directors, the effect will be to dilute the shareholding of existing members by approximately 1.194%, based on the existing number of Shares as at the date of this Notice.

- (f) as at the date of this Notice, the Recipient Directors hold no securities in the Company.

If Shareholders approve all Resolutions contained in this Notice, the Shares are issued as contemplated by this Notice, the Recipient Directors will hold the following securities in the Company, representing 1.194% of the issued capital of the Company:

Director	Number of Shares held directly	Number of Shares held indirectly
C. Sinclair-Poulton	250,000	Nil
T. Renard	1,000,000	Nil

- (g) details of the Recipient Directors' remuneration for the year end 31 December 2008 (based on information extracted from the Company's 2008 Annual Report) are as follows:

Director	Consulting fees (\$)	Fees (\$)	Superannuation (\$)	Equity (\$)	Total (\$)
C. Sinclair-Poulton	Nil	8,000	Nil	Nil	8,000
T. Renard	114,582	6,000	540	Nil	121,122

Details of the estimated remuneration payable to the Recipient Directors for the year beginning 1 January 2009 are as follows:

Director	Consulting fees (\$)	Fees (\$)	Superannuation (\$)	Equity (\$)	Total (\$)
C. Sinclair-Poulton	Nil	24,000	Nil	4,396	28,396
T. Renard	250,000	24,000	2,160	17,583	293,743

- (h) the subscription price at which 1,250,000 Shares may be issued to the Recipient Directors will be \$0.15 per Share (being greater than the weighted average price of Shares on ASX over the past 5 trading days immediately before the date on which the Shares were offered to Directors being \$0.085, with the subscription price being loaned to the Directors on the terms set out in Section 5.4(k) of the Explanatory Memorandum, in accordance with the terms of the Share Plan;
- (i) during the last 12 months before the date of lodgement of this Notice with the ASIC, the highest trading price of the Shares was \$0.22 on 19 May 2008 (pre-share consolidation) and the lowest trading price of the Shares was \$0.04 on 4 November 2008 (post-share consolidation). The market price of the Company's Shares over the 5 day trading on ASX up to and including 14 April 2009 has been between a minimum of \$0.054 per Share to a maximum of \$0.056 per Share. On 14 April 2009 the Shares closed at a price of \$0.056 per Share;
- (j) assuming a market price on the date of repayment of the loans of \$0.056, being the market price on 14 April 2009, the Company will receive \$70,000 from the issue of the Shares to the Recipient Directors. Therefore, there is no guarantee that the loans will be repaid in full;
- (k) the primary purpose of the issue of the Shares to the Recipient Directors under the Share Plan is to provide an incentive and reward to the Directors. Given this purpose, the Board does not consider that there is any opportunity cost or benefit foregone to the Company in issuing the Shares proposed by Resolutions 4 and 5;
- (l) the issue of Shares to the Recipient Directors is a more cost effective incentive for the Company as opposed to the payment of cash compensation;
- (m) Mr Sinclair-Poulton has a material personal interest in the outcome of Resolution 4, Mr Renard has a material personal interest in the outcome of Resolution 5;
- (n) none of the Recipient Directors wish to make a recommendation to Shareholders about Resolutions 4 and 5 because each has an interest in the outcome of those Resolutions;
- (o) all Directors, apart from the Recipient Directors, recommend to Shareholders that they approve Resolutions 4 and 5. These Directors do not have an interest in the outcome of Resolutions 4 and 5 except as Shareholders of the Company.
- (p) a valuation of the Shares proposed to be issued to the Recipient Directors has been calculated using the Black and Scholes pricing model and based on the following assumptions:
 - (i) the underlying valuation of each share in the Company is based on the closing price of \$0.056 as at 14 April 2009;
 - (ii) Risk free rate or return 4.16% for Tranche 1 and Tranche 2 (based on the 2 year bond indicator rate as at 14 April 2009);

- (iii) share price volatility of 105%, based on Morning Star's and comparable companies' historical share price volatility;
- (iv) shares may not be transferred or otherwise dealt with, and will not be quoted on ASX, until the later of the following occurs:
 - A. any loan in respect of the shares is repaid;
 - B. in respect of:
 - 1) one half of the Shares issued under the offer, the expiry of 12 months from the date of issue of the Shares; and
 - 2) the remaining one half of the Shares issued under the offer, the expiry of 24 months after the date of issue of the Shares;
- (v) issue price of \$0.15; and
- (vi) a dividend yield of zero.

Based on the assumptions outlined above, the Black and Scholes pricing model attributes a theoretical value of 0.025 cents per Share for Tranche 1 and Tranche 2.

The Black and Scholes pricing model assumes that the equity instruments the subject of the valuation can be sold on a secondary market. The terms and conditions of the Share Plan state that no application will be made for the Shares to be listed for official quotation on ASX, until certain milestones are met. Accordingly, a discount for lack of marketability is required to determine an indicative fair value of the shares. The calculated indicative fair value of the shares, based on a discount factor of 30% applied to the theoretical valuation of the shares, is \$21,978. In arriving at a discount factor of 30% consideration has been given to the discounts that have traditionally been applied in the range of 10% to 30% to reflect the non-negotiability of unlisted equities and the fact that the shares will be unlisted.

The table below summarises the values attributed to the Share issues:

Allottee	Theoretical value per share (cents)	Discount (%)	Indicative value per Share (cents)	Number of shares issued	Total value (\$)
C. Sinclair-Poulton	0.025	30	0.017	250,000	4,396
T. Renard	0.025	30	0.017	1,000,000	17,583
TOTAL	0.025	30	0.017	1,250,000	21,978

Note 1. Due to rounding the total value shown may differ from the sum of the individual Tranche values

- (q) additional information in relation to Resolutions 4 and 5 is set out throughout this Explanatory Memorandum. Shareholders should therefore read the Explanatory Memorandum in its entirety before making a decision on how to vote on Resolutions 4 and 5;
- (r) the Company will incur no liabilities or costs in respect of the proposed issue of the Shares to the Recipient Directors other than:

- (i) the fees payable to ASX for quotation of the Shares. At the rates applying at the date of this Notice, these fees would be approximately \$2,000. However, these fees will not be payable until after the later of loans in respect of the Shares have been repaid and the vesting periods have expired; and
- (ii) a value equal to the weighted average trading price of Shares on ASX in the five days immediately before the date of valuation, will be included as wages for the purposes of *Pay-roll Tax Act 2002 (WA)*, *Pay-roll Tax Assessment Act 2002 (WA)* and the *Taxation Administration Act 2003 (WA)*. If this value in addition to other wages paid or payable by the Company during a month is in excess of the monthly pay-roll tax threshold, the Company may be required to register for pay-roll tax in the relevant jurisdiction. If this value in addition to other wages that are taxable in the jurisdiction is in excess of the annual pay-roll tax threshold, the Company will have a liability in respect of pay-roll tax in that jurisdiction; and
- (s) neither the Board nor the Company is aware of any other information that would be reasonably be required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolutions 4 and 5, other than as stated in this Explanatory Memorandum.

5.3 Listing Rule 10.14

Listing Rule 10.14 provides, in essence, that the approval of ordinary shareholders by ordinary resolutions is required before any of the following persons can acquire securities under an employee incentive scheme:

- (a) director;
- (b) an associate of a director; or
- (c) a person whose relationship with the company or a related party is, in ASX's opinion, such that approval should be obtained.

Each of the Recipient Directors is a Director of the Company for the purpose of Listing Rule 10.14. Accordingly, in order for the Recipient Directors to acquire Shares under the Share Plan, the Company must obtain Shareholder approval pursuant to Listing Rule 10.14.

5.4 Listing Rule disclosure requirements

In accordance with Listing Rule 10.15, the following information is provided to Shareholders in relation to Resolutions 4 and 5:

- (a) Mr Sinclair-Poulton and Mr Renard are Directors;
- (b) the maximum number of Shares that may be issued to Mr Sinclair-Poulton under Resolution 4 is 250,000 Shares and to Mr Renard under Resolution 5 is 1,000,000 Shares;
- (c) no Shares have been issued under the Share Plan since the last approval;
- (d) directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries, may participate in the Share Plan;
- (e) it is proposed that the Shares will be issued on one date within 12 months from the date of the Meeting, but the Company reserves the right to issue the Shares progressively;

- (f) the issue price of the Shares is \$0.15, being greater than the weighted average price of Shares on ASX over the 5 trading days prior to the offer being made;
- (g) subject to compliance with the Listing Rules, the Shares to be issued to Mr Sinclair-Poulton and Mr Renard pursuant to Resolutions 4 and 5 may not be transferred or otherwise dealt with until the later to occur of the following:
 - (i) the loan in respect of those Shares has been repaid; and
 - (ii) in respect of:
 - A. Tranche 1, 12 months after the date of issue of the Shares; and
 - B. Tranche 2, 24 months after the date of issue of the Shares;
- (h) other than the restriction on trading referred to above, the Shares issued pursuant to Resolutions 4 and 5 will rank equally with all other Shares on issue;
- (i) the Company will provide loans ("**Loan**") to Mr Sinclair-Poulton and Mr Renard in relation to the acquisition of the Shares under the Share Plan. The loans are repayable within 4 years and on the following terms:
 - (i) Loans must be made solely to the Director and in the name of the Director.
 - (ii) Loans will be interest free.
 - (iii) Any Loan made available to a Director shall be applied by the Company directly toward payment of the issue price of the Shares to be acquired under the Share Plan.
 - (iv) The term of the Loan, the time in which repayment of the Loan must be made by the Director and the manner for making such payments shall be determined by the Board and set out in the invitation.
 - (v) The amount repayable on the Loan by the Director will be the lesser of:
 - A. the issue price of the Shares, less any cash dividends paid in respect of the Shares and applied by the Company to the Loan and any amount of the Loan repaid by the Recipient Director; and
 - B. the last sale price of the Shares on ASX on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.
- (ii) A Recipient Director must repay the Loan prior to the expiry of the term of the Loan.
- (iii) Any fees, charges and stamp duty payable in respect of a Loan will be payable by the Recipient Director.
- (iv) The Company shall have a lien over the Shares in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in accordance with the terms of the Share Plan.
- (v) A Share issued under the Share Plan will not be tradeable by the Recipient Director until the Loan amount in respect of that Share has been repaid.

- (j) initially no funds will be raised by the issue of Shares due to the provision of the loans to the Recipient Directors. However, when the loans have been repaid, the funds raised by the issue of the Shares will be used for working capital purposes of the Company as the Board thinks fit; and
- (k) if, prior to the repayment in full of a loan by a Recipient Director, the Recipient Director:
 - (i) becomes bankrupt; or
 - (ii) ceases to be a Director of, or a consultant, to the Company or any of its subsidiaries,

then the Director (or his or her personal representative) shall elect one of the following two alternatives:

Alternative 1

To have the Company sell the Plan Shares on ASX and apply the proceeds of sale in repayment of the Loan and refund the surplus (if any) to the Director.

Alternative 2

To repay the loan:

- (i) within 12 months of the date of the event that caused the election where the Director either retired or is retrenched; or
- (ii) within one (1) month in the event that the Director resigns or is terminated.

6. Resolution 6 – Change of Auditor

Ernst & Young has been the Company's auditors for over six years. Following an intensive review process of the external audit function based on market expectations, the Company's relative size and the appropriateness of engaging a second tier auditing firm, the Board recommend the appointment of HLB Mann Judd as auditor. HLB Mann Judd has significant audit experience and an excellent track record in auditing public listed companies.

In accordance with section 328B of the Corporations Act, notice in writing nominating HLB Mann Judd as auditor has been given to the Company by a shareholder. A copy of this notice is attached to this Explanatory Memorandum as Annexure A.

HLB Mann Judd has given its written consent to act as the Company's auditor in accordance with section 328A(1) of the Corporations Act.

Ernst & Young have applied for consent from ASIC to its resignation in accordance with section 329(5) of the Corporations Act.

Subject to approval by shareholders and subject to the receipt of ASIC's consent, the appointment of HLB Mann Judd at the AGM will be effective from the close of the AGM. If HLB Mann Judd are appointed as auditor, arrangements are in place between the Company, HLB Mann Judd and Ernst & Young to ensure a smooth transition.

Glossary of Terms

The following terms and abbreviations used in the Notice of Meeting and this Explanatory Memorandum have the following meanings:

"**Annual General Meeting**" or "**Meeting**" means the annual general meeting of Shareholders to be held at Level 2, 3 Spring Street, Sydney NSW 2001 on 29 May 2009 at 11.00am (EST) or any adjournment thereof.

"**ASIC**" means the Australian Securities and Investments Commission.

"**ASX**" means ASX Limited ACN 008 624 691.

"**Board**" means the board of Directors.

"**Company**" and "**Morning Star**" means Morning Star Holdings (Australia) Limited ABN 98 008 124 025.

"**Corporations Act**" means the *Corporations Act 2001* (Commonwealth).

"**Directors**" means the directors of the Company, from time to time.

"**Explanatory Memorandum**" means this explanatory memorandum.

"**Listing Rules**" means the official listing rules of ASX.

"**Notice of Meeting**" means the notice of Meeting which accompanies the Explanatory Memorandum.

"**Plan Share**" means a Share issued pursuant to the Share Plan.

"**Recipient Directors**" means Mr Sinclair-Poulton and Mr Renard.

"**Resolution**" means a resolution in this Notice of Meeting.

"**Shareholders**" means registered holders of Shares.

"**Share Plan**" means the Morning Star Share Plan approved by Shareholders on 18 July 2008.

"**Shares**" means fully paid ordinary shares in the capital of the Company.

Wednesday 15th April 2009

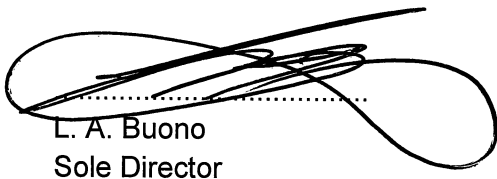
Mr. Theo Renard
Company Secretary
Morning Star Holdings (Australia) Limited
Suite 1308
3 Spring Street
Sydney
NSW 2000

Dear Mr. Renard

Nomination of HLB Mann Judd as auditor of Morning Star Holdings (Australia) Limited

We Bonarc Pty Ltd being a member of Morning Star Holdings (Australia) Limited, pursuant to Section 328 of the Corporations Act 2001, hereby nominate HLB Mann Judd for appointment as auditor of the Company at the next Annual General Meeting of the Company or any adjournment thereof.

Yours sincerely



L. A. Buono
Sole Director

Proxies

If you are unable to attend and vote at the meeting and wish to appoint a person who is attending as your proxy, please complete the enclosed form of proxy. This form must be received by the company by 11.00am (EST) on 27 May 2009.

The completed form of proxy may be:

1. Mailed to Morning Star Holdings (Australia) Limited, Suite 1308, 3 Spring Street, Sydney NSW 2001, or
2. Faxed to Morning Star Holdings (Australia) Limited on (02) 8249 4001.

A member entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the member's voting rights. A proxy need not be a member of the company.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

FORM OF PROXY

The Secretary
Morning Star Holdings (Australia) Limited
Suite 1308
3 Spring Street
Sydney NSW 2001

I/We _____
(print shareholder(s) name(s))

of _____
(print address of shareholder(s))

being a member/members of Morning Star Holdings (Australia) Limited hereby appoint

(print proxy's name in full)

of _____
(print proxy's address)

and (if you wish to appoint two proxies) _____
(print second proxy's name in full)

of _____
(print second proxy's address)

or, in the proxy's/proxies' absence or if no other appointee is mentioned, the Chairman of the Meeting as my/our proxy/proxies to vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on 29 May 2009 and at any adjournment of that meeting.

I/We desire to vote on the resolutions as indicated below:-

Please indicate with an X how you wish your vote to be cast. Unless otherwise instructed, the proxy may vote as he/she thinks fit. The resolutions are numbered as in the notice of meeting.

Item	For	Against	Abstain
1. To adopt the remuneration report			
2. Election of Mr. C. Sinclair-Poulton as a director			
3. Election of Mr T. Renard as a director			
4. Issue of Shares to Mr C. Sinclair-Poulton under the Share Plan			
5. Issue of Shares to Mr T. Renard under the Share Plan			
6. Change of Auditors			

In relation to undirected proxies, the Chairman intends to vote in favour of each resolution.

1561

If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

Signature(s) of member(s)

NOTES:

1. If you have appointed two proxies please indicate what proportion of your voting rights each proxy is to represent.
2. If the appointment of a proxy is signed by the appointer's attorney, this form must be accompanied by the authority under which the appointment was signed, or a certified copy of the authority.

1. mailed to Morning Star Holdings (Australia) Limited, Suite 1308, 3 Spring Street, Sydney NSW 2001 or
2. faxed to Morning Star Holdings (Australia) Limited on (02) 8249 4001.



**MORNING STAR
HOLDINGS
(AUSTRALIA) LIMITED**
ABN 98 008 124 025

FINANCIAL REPORT

31 December 2008

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

Contents to financial report

Corporate information	2
Director's report	3
Corporate governance statement	18
Balance sheets	22
Income statements	23
Statements of changes in equity	24
Cash flow statements	26
Notes to the financial statements	27
1. Corporate information	27
2. Summary of significant accounting policies	27
3. Financial risk management objectives and policies	39
4. Significant accounting judgements, estimates and assumptions	41
5. Segment information	43
6. Expenses	44
7. Income tax	44
8. Earnings per share	46
9. Current assets – cash and cash equivalents	46
10. Current assets – trade and other receivables	46
11. Current assets – inventories	47
12. Non – current assets – receivables	47
13. Non – current assets – property, plant and equipment	48
14. Non – current assets – goodwill	49
15. Current liabilities – trade and other payables	50
16. Interest – bearing loans and borrowings	50
17. Contributed equity	51
18. Retained earnings and reserves	52
19. Cash flow statement reconciliation	53
20. Related party disclosure	53
21. Key management personnel	54
22. Share – based payment plans	55
23. Business combination	59
24. Commitments	60
25. Contingencies	61
26. Events after the balance sheet date	61
27. Auditors' remuneration	61
Independent auditor's report.....	62
Directors' declaration	64
ASX additional information	65

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

Corporate information

ABN 98 008 124 025

Directors

Grant Button – Chair and Non-executive Director

Richard Rossiter – Managing Director

Theo Renard – Executive Director (appointed 01 October 2008)

Clive Sinclair-Poulton – Non-executive Director (appointed 25 August 2008)

Dean Gallegos – Executive Director (resigned 25 August 2008)

Bruce Burrell – Non-executive Director (resigned 1 October 2008)

Company Secretary

Dean Gallegos (resigned 25 August 2008)

Theo Renard (appointed 25 August 2008)

Registered and Principal Office

Suite 1308, 3 Spring Street

Sydney NSW 2000 AUSTRALIA

Telephone (+61 2) 8249 4542

Facsimile (+61 2) 8249 4001

Website www.msh.net.au

Email info@msh.net.au

Share Register

Computershare Investor Services Pty Limited

Level 2, 45 St Georges Terrace

Perth WA 6000 AUSTRALIA

Telephone (+61 8) 9323 2000

Facsimile (+61 8) 9323 2033

Stock Exchange Listing

Morning Star Holdings (Australia) Limited shares are listed on the Australian Stock Exchange (ASX code: MSH).

Country and Date of Incorporation

Australia, 30 January 1987

Auditors

Ernst & Young

The Ernst & Young Centre

680 George Street

Sydney NSW 2000 AUSTRALIA

Telephone (+61 2) 9248 5555

Facsimile (+61 2) 9248 5959

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report

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

Directors and Company Secretary

The names and qualifications of the Directors and Company Secretary of the Company holding office at the date of this report are:

Grant Button *BBus, CPA. Age 47*
Chair and Non-executive Director

Mr Button is a qualified accountant and has significant financial and other commercial management and transactional experience. He is currently a Director of Magnum Mining and Exploration Limited and Chairman and Non-executive Director of Alamar Resources Limited. He was a Director of Washington Resources Limited until his resignation on 01 December 2008 and a director of Sylvania Resources Limited until his resignation on 31 July 2007. Mr Button has not been a Director of any other listed companies in the past three years to 31 December 2008.

Richard Rossiter *BSc (Hons), MSc. Age 51*
Managing Director

Mr. Rossiter began his career as a geologist with General Mining Union Corporation in South Africa. He subsequently qualified in mine management and held various production management and business development roles. He later joined the financial sector as a mining analyst and then moved to Australia where he was later responsible for corporate advisory, mergers and acquisitions and divestments. He holds a Bachelor of Science (Hons) in Geology from the University of Natal and a MSc in Mineral Exploration from Rhodes University in South Africa. He is currently Non-executive Chairman of Sylvania Resources Limited and has not been a Director of any other listed companies in the past three years to 31 December 2008.

Theo Renard *CA(SA), CSA. Age 46*
Executive Director and Company Secretary

Mr Renard has over 20 years experience in commercial and investment banking. He has previously held the position of CFO and Company Secretary in the retail industry.

Clive Sinclair-Poulton *Age 53*
Non-executive Director

Mr Sinclair-Poulton studied law at Cambridge University graduating in 1978, before starting a twenty year career in investment banking in London with Citibank and Security Pacific (now Bank of America) as well as stockbroker Hoare Govett.

Mr Sinclair-Poulton was appointed a Director of Tanzania Gold Plc (now Bezant Resources Plc) in September 2006 and was CEO of Bezant Resources Plc (AIM:BZT) with copper and gold assets in Tanzania and the Philippines until he stepped down in February 2008. He continues to have a consulting role with Bezant Resources Plc.

In addition, Mr Dean Gallegos and Mr Bruce Burrell held office as Directors during the financial year as detailed below.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Dean Gallegos Age 41

Executive Director (resigned 25 August 2008)

Mr Gallegos has over 17 years corporate finance experience. Mr Gallegos specialises in advising both public and private companies on acquisitions, mergers, equity capital raisings, structured debt and balance sheet restructuring. He has also managed a significant number of initial public offerings and secondary market capital raisings for public and private companies and has been actively involved in due diligence investigations, prospectus drafting and marketing of capital raisings. During the past three years Mr Gallegos has also served as a Director of the following listed companies:

- Verus Investments Limited – resigned 24 April 2008
- Buccaneer Energy Limited
- Teys Limited (formally Global Approach Limited) – resigned 31 July 2008
- InterCoal Limited – resigned July 2006

Bruce Burrell CPA, MSc Age 62

Non-executive Director (resigned 1 October 2008)

Mr Burrell has over 30 years experience in the public company environment and has served as a director and company secretary of ASX listed companies during that period. He is a fellow of CPA Australia and holds a Master of Business Administration. During the past three years Mr Burrell has also served as a Director of the following listed companies:

- Sunvest Corporation Limited
- Vesture Limited (formally Australian Institute of Property Management Limited) – resigned November 2007
- International Gold Mining Ltd

Interests in the shares and options of the company

Number of Shares held by Directors

At the date of this report, the interests of the directors in the shares of Morning Star Holdings (Australia) Limited were:

Directors	Balance 1-Jan-08	Received as Remuneration	On Exercise of Options	Net Change Other	Balance 31-Dec-08
Grant Button	-	750,000	-	-	750,000
Richard Rossiter	-	1,500,000	-	-	1,500,000
	-	2,250,000	-	-	2,250,000

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Interests in the shares and options of the company (continued)

Number of Options held by Directors

At the date of this report, the interests of the directors in the options of Morning Star Holdings (Australia) Limited were:

Directors	Balance 1-Jan-08	Received as Remuneration	Options Exercised	Options Expired	Balance 31-Dec-08
Dean Gallegos (i)	3,100,000	1,500,000	-	3,100,000	1,500,000
Bruce Burrell (ii)	300,000	150,000	-	300,000	150,000
	3,400,000	1,650,000	-	3,400,000	1,650,000

(i) Dean Gallegos resigned on 25 August 2008.

(ii) Bruce Burrell resigned on 01 October 2008.

Share options

Unissued shares

As at the date of this report, there were 1,650,000 unissued ordinary shares under options (1,650,000 at the reporting date). Refer to the remuneration report for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, Directors did not exercise any options.

Review of results and operations

Morning Star Holdings (Australia) Limited ("Morning Star" or "the Company") has recorded revenue from ordinary activities of \$3,040,090 (\$504,586 in 2007) and a net loss for the year ended 31 December 2008 of \$3,790,392 versus a profit of \$40,144 in 2007. The 2008 result was affected by:

- Morning Star's acquisition of Alumicor SA Holdings Proprietary Limited ("Alumicor") on 1 August 2008 and the associated move from a cash shell to an operating company;
- Due to changed conditions in the world's aluminium market, impairments have been taken on; the operating assets at Alumicor, goodwill arising on the acquisition of Alumicor and the loan to African Dune;
- Increased costs associated with one-off corporate restructuring and operational issues at Alumicor (detailed below);
- Provisioning for a potential administration fine of \$129,716 imposed by The Department of Agriculture and Environmental Affairs ("DAEA") in South Africa. The fine is being appealed (detailed below).

On 1 August 2008, Morning Star took ownership of 74% of Alumicor SA Holdings Proprietary Limited ("Alumicor"), an aluminium dross treating business in Pietermaritzburg South Africa.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Smelting and recovery performance comparison

Alumicor SA	Q3	Q4	% change
Tons smelted	3960	3168	-20%
Average recovery %	38%	51%	36%

Operations

Interruptions to the continuous smelting of dross occurred regularly in the fourth quarter due to management intervention aimed at improving recoveries and reducing costs. The decline in recovery largely resulted from the salt flux producer supplying incorrect formulation flux to Alumicor. In response to these declining recoveries, Hulamin reduced deliveries of dross until the problem was identified and solved, and insisted that extensive trials under strictly supervised conditions were conducted. These trials, which proved to be successful, disrupted the normal production cycle thereby reducing volumes treated. The main problems were identified and consequently flux formulations and recoveries were rectified. The new flux formulations however were significantly more expensive, thereby increasing Alumicor's overall dross treatment costs. Alumicor was, however, able to negotiate a payment make up for the increased flux cost differential.

Towards the end of the year, volumes were further affected by the Christmas shut down at Hulamin and reduced production levels in response to the reduction in global economic activity. Management has engaged extensively with Hulamin on the subject of volumes and agreed that where possible, Hulamin will deliver as much dross as practical together with virgin aluminium scrap. The aim is to fully utilise the installed capacity at Alumicor and return the operations to profitability as the business is volume driven.

Management and system controls at Alumicor continue to be reviewed and improved to ensure that operational efficiency is maximised and safety, health and environmental standards are met and exceeded.

Financial

Revenues were negatively impacted by lower volumes while costs suffered due to rising input costs, resulting in losses being incurred at Alumicor.

Costs were largely affected by the significant increase in the cost of salt flux, a component of which is used in the competing fertilizer and bio fuel industry, together with increased management and supervision costs required to resolve the recovery problems. Attempts to lower the amount of flux used and negotiate a reduction of the flux prices have not been successful to date. Efforts are now being directed at renegotiating the commercial arrangement with Hulamin to ensure that Alumicor operations remain profitable in volatile input cost environments and yield adequate returns for MSH shareholders.

Morning Star expects to make an announcement on these negotiations as soon as the negotiations are finalised.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Subsequent events

The fine imposed by The DAEA, relates to perceived technical infringements to the application permit. Following discussions with the DAEA the Company has been informed that numerous problems have been experienced with the recently introduced "new fine calculator" and that on appeal the Company should expect a significant reduction in the fine given its situation. The fine is being contested with expert help and an appeal has been lodged with the DAEA. A successful outcome is anticipated which may result in a write-back of most of the fine amount recorded in the income statement.

Strategy and Business Development

The board and management have been actively pursuing strategies to:-

- Return MSH's investment in Alumicor SA to profitability via renegotiating the commercial agreement with Hualamin and improving operational performance of the asset;
- Grow MSH via identifying and developing additional business opportunities;
- Conserve cash resources (\$6.6m as at 31 December 2008).

Business development activities have been focussed on:-

- Introducing site dedicated aluminium dross treatment plants to Australia and elsewhere. Detailed negotiations are underway with two Australian primary aluminium smelters to treat trial batches of dross at Alumicor SA with the ultimate aim of developing dedicated smelting facilities at each site in Australia.
- Sourcing good quality resource sector projects, which are now becoming increasingly available following the downturn in commodity markets.

Corporate

During the year under review the following capital restructuring occurred:

	No. of shares
Ordinary Shares on issue at beginning of the year	182,295,777
Ordinary shares on issue following consolidation	91,147,924
Shares issued as consideration for Alumicor	11,309,885
Share plan shares issued	2,250,000
Ordinary shares in issue at end of year	<u>104,707,809</u>

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Directors' meetings

Meetings of Directors held and their attendance during the financial year were as follows:

Name of Director:	No. of meetings attended:	No. of meetings whilst Director:
Grant Button	5 (5 Board, 2 Audit Committee, 1 Remuneration committee)	5 (5 Board, 2 Audit Committee, 1 Remuneration committee)
Richard Rossiter	5 (5 Board, 2 Audit Committee, 1 Remuneration committee)	5 (5 Board, 2 Audit Committee, 1 Remuneration committee)
Theo Renard	2 (2 Board meetings)	1 (1 Board meetings)
Clive Sinclair-Poulton	2 (2 Board meetings)	2 (2 Board meetings)
Dean Gallegos	4 (4 Board meetings)	4 (4 Board meetings)
Bruce Burrell	3 (3 Board meetings)	3 (3 Board meetings)

Principal activities

The principal activity of the Company during the financial year was the acquisition of Alumicor SA Holdings Pty Ltd, an aluminium waste reprocessing business based in Pietermaritzburg, South Africa. The business, which was acquired on the 1st of August, required significant management input following operational difficulties and a deterioration in market conditions towards the end of the year. Concurrently the Board of Morning Star continued to pursue new opportunities in the resource sector with the view of maximising shareholder value.

Financial results

The consolidated net loss for the year ended 31 December 2008 was \$3,790,392 (2007: profit \$40,144).

Review of operations

A review of the operations of the Group is contained within the "Review of results and operations"

Dividends

No dividend has been paid or declared since the start of the financial year and the Directors do not recommend the payment of a dividend in respect of the financial year.

Significant changes in the state of affairs

The acquisition of Alumicor SA Holdings Pty Limited on 1 August 2008 and concurrent corporate restructuring effectively transformed Morning Star from a cash shell to an operating company.

Alumicor's performance was affected by volatile trading conditions associated with the global resources cycle and deteriorating market conditions towards the end of the year.

Significant events after balance date

Management is focussing on renegotiating the commercial agreement with Hulamin with the aim of returning the operations to profitability and securing adequate returns for Morning Star shareholders. In addition, an appeal has been lodged for a fine lodged by the DAEA for a perceived technical infringement to the application permit. See the "Review of results and operations" for further details.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Likely developments and expected results

Additional comments on expected results and developments are contained in the "Review of results and operations".

Environmental regulation and performance

The Group is subject to significant environmental regulations in respect of its Alumicor business in South Africa. Other than the fine which is being appealed (detailed above), there have been no known breaches of these regulations and principles.

Indemnification and insurance of directors

Insurance cover in respect of Directors' and officers' liability is currently being investigated. The company has no insurance policy in place that indemnifies the company's auditors.

Auditor independence and non-audit services

The directors received the Auditor's independence declaration from the auditor of Morning Star Holdings (Australia) Limited, and is presented within the Director's report on page 17.

Non – audit services

The entity's auditor, Ernst and Young, did not provide any non-audit services.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited)

Introduction

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purpose of this report Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, and includes executives of the Company.

Details of Key Management Personnel

(i) Directors of Morning Star Holdings (Australia) Limited during the financial year were:

Grant Button	- Chair and Non-executive Director
Richard Rossiter	- Managing Director
Theo Renard	- Executive Director (<i>appointed 01 October 2008</i>)
Clive Sinclair-Poulton	- Non-executive Director (<i>appointed 25 August 2008</i>)
Dean Gallegos	- Executive Director (<i>resigned 25 August 2008</i>)
Bruce Burrell	- Non-executive Director (<i>resigned 01 October 2008</i>)

(ii) Other Executives of Morning Star Holdings (Australia) Limited during the financial year were:

Theo Renard	- Company Secretary
-------------	---------------------

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and
- Significant portion of executive remuneration "at risk" provided through participation in incentive plans.

Shares and options issued under the incentive plans provide an incentive to stay with the Company. At this time, shares and options issued do not have performance criteria attached.

The Company does not have a policy which precludes directors and executives from entering into contracts to hedge their exposure to options or shares.

The Company also recognizes that, at this stage in its development, it is most economic to have only a few employees and to draw, as appropriate, upon a pool of consultants selected by the Directors on the basis of their known management, geoscientific, engineering and other professional and technical expertise and experience. The Company will nevertheless seek to apply the principles described above to its Directors and executives, whether they are employees of or consultants to the Company.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Remuneration Committee Responsibilities

During the year, the Company did not have a separately established Remuneration Committee. It considers that this function is efficiently achieved with full Board support. Accordingly, the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Managing Director and the senior management team.

The Board assesses the appropriateness of the nature and amount of remuneration of Directors and senior executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive and executive Director remuneration is separate and distinct.

Non-executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors must be determined from time to time by shareholders of the Company in a general meeting. An amount not exceeding the amount determined is then divided between the non-executive Directors as agreed. The current aggregate limit of remuneration for non-executive Directors is \$300,000.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst non-executive Directors is reviewed annually. The Board may consider advice from external consultants, as well as the fees paid to non-executive Directors of comparable companies, when undertaking the annual review process.

Non-executive Directors are encouraged by the Board to hold shares in the Company (purchased on market and in accordance with the Company's approved policies to ensure there is no insider trading). It is considered good governance for Directors of a company to have a stake in that company. The non-executive Directors of the Company may also participate in the share and option plans as described in this report, which provide incentives where specified criteria are met.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Executive Director and Senior Management Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company, business team and individual performance;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

Structure

At this time, the cash component of remuneration paid to Directors, the Company Secretary and other senior managers is not dependent upon the satisfaction of performance conditions. It is current policy that executives be engaged by way of consultancy agreements with the Company, under which they receive a contract rate based upon the number of hours of service supplied to the Company. Such remuneration is hence not dependent upon the achievement of specific performance conditions. This policy is considered to be appropriate for the Company, having regard to the current state of its development.

The details of the Managing Director's Consultancy Agreement are summarized below:

Engagement

The Company engages the Consultant to provide the Company with the consultancy services during the term, on and subject to the terms of the Agreement, and the Consultant accepts the engagement.

Term

The initial term of the engagement commences on 23 December 2008 and continues for two years, unless that period is extended or terminated in accordance with the following summarised terms:

- **Extension of term**

Following the completion of the term indicated above, if the parties agree, the engagement will be extended for rolling periods of two years thereafter;

- **Termination by Company**

The Company may immediately terminate the Agreement by giving written notice to the Consultant:

- **Entitlements on Termination**

Upon termination of the Agreement the Consultant (pursuant to additional clauses) is entitled to the consultancy fee up to and including the date of termination.

- **Termination by notice by Company or Consultant**

The Agreement may be terminated without cause by either the Company or the Consultant upon giving the other party notice.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Remuneration

In consideration for the consultancy services, the Company will pay the consultancy fee to the Consultant in monthly instalments in arrears at the end of each month. In addition, the Company may, if the Board (following a recommendation by the Remuneration Committee) so resolves, offer to the Consultant or the nominated executive, securities in accordance with the Company's share or option incentive plan.

Remuneration of key management personnel of the Company

Table 1: Remuneration for the year ended 31 December 2008

	Directors fees \$	Short-term Salary and Consulting fees \$	Long-term Superannuation contribution \$	Share based payment Shares and options \$	Total \$
Non – executive directors					
Grant Button	24,000	-	2,160	58,567	84,727
Clive Sinclair-Poulton	8,000	-	-	-	8,000
Bruce Burrell (i)	18,000	-	1,670	5,048	24,718
Sub – total non – executive directors	50,000	-	3,830	63,615	117,445
Executive directors					
Richard Rossiter	24,000	13,520	2,160	117,133	156,813
Theo Renard	6,000	114,582	540	-	121,122
Dean Gallegos (ii)	76,667	146,000	-	50,482	273,149
Sub – total executive directors	106,667	274,102	2,700	167,615	551,084
Totals	156,667	274,102	6,530	231,230	668,529

- (i) resigned on 01 October 2008
(ii) resigned on 25 August 2008

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Table 2: Remuneration for the year ended 31 December 2007

	Directors fees \$	Short-term Salary and Consulting fees \$	Long-term Superannuation contribution \$	Share based payment Shares and options \$	Total \$
Non – executive directors					
Grant Button (i)	8,774	-	-	-	8,774
Richard Rossiter (ii)	8,774	-	-	-	8,774
Bruce Burrell	24,000	-	-	2,700	26,700
David Barwick (iii)	16,000	-	-	2,700	18,700
Martin Hanrahan (iv)	2,000	-	-	-	2,000
Sub – total non – executive directors	59,548	-	-	5,400	64,948
Dean Gallegos	120,000	-	-	27,900	147,900
Sub – total executive directors	120,000	-	-	27,900	147,900
Totals	179,548	-	-	33,300	212,848

(i) appointed on 30 August 2007

(ii) appointed on 30 August 2007

(iii) resigned on 30 August 2007

(iv) resigned on 29 January 2007

Table 3: Compensation shares: Granted and vested during the year

31 December 2008	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant Date	Fair Value per share at grant date \$ (note 22)	Exercise price per share \$ (note 22)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Directors									-
Grant Button	750,000	15 August 2008	0.178	0.20	15 August 2012	15 August 2010	15 August 2012	750,000	100%
Richard Rossiter	1,500,000	15 August 2008	0.178	0.20	15 August 2012	15 August 2010	15 August 2012	1,500,000	100%
Total	<u>2,250,000</u>							<u>2,250,000</u>	100%

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Table 4: Compensation options: Granted and vested during the year

31 December 2008	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant date	Fair Value per option at grant date \$ (note 22)	Exercise price per option \$ (note 22)	Expiry date	First exercise date	Last exercise date	No.	%
Directors									
Dean Gallegos (i)	1,500,000	15 August 2008	0.178	0.20	15 May 2009	15 August 2008	15 May	1,500,000	100%
Bruce Burrell (ii)	150,000	15 August 2008	0.178	0.20	15 May 2009	15 August 2008	15 May	150,000	100%
Total	<u>1,650,000</u>							<u>1,650,000</u>	100%

(i) resigned on 25 August 2008

(ii) resigned on 01 October 2008

Table 5: Compensation shares: Granted and vested during the year

2007 - nil

Table 6: Compensation options: Granted and vested during the year

31 December 2007			Terms & Conditions for each Grant					Vested	
	Granted No.	Grant Date	Fair Value per option at grant date \$ (note 22)	Exercise price per option \$ (note 22)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Directors									
Dean Gallegos	3,100,000	23 January 2007	0.009	0.007	31 May 2008	23 January 2007	31 May 2008	1,500,000	100%
Bruce Burrell	300,000	23 January 2007	0.009	0.007	31 May 2008	23 January 2007	31 May 2008	300,000	100%
David Barwick (i)	<u>300,000</u>	23 January 2007	0.009	0.007	31 May 2008	23 January 2007	31 May 2008	<u>300,000</u>	100%
Total	<u>3,700,000</u>							<u>3,700,000</u>	100%

(i) Resigned on 30 August 2007

Table 7: Shares granted as part of remuneration

	No of shares granted during the year	Value of shares granted during the year \$	Value of shares lapsed during the year \$	Total value of shares granted, exercised and lapsed during the year \$	% Remuneration consisting of shares for the year
Grant Button	750,000	133,500	-	-	69.1
Richard Rossiter	<u>1,500,000</u>	<u>267,500</u>	-	-	<u>74.7</u>

Note: Shares issued under employee share plan and treated as in substance options.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Table 8: Options granted as part of remuneration

	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Total value of options granted, exercised and lapsed during the year \$	% Remuneration consisting of options for the year
Dean Gallegos (i)	267,000	-	27,900	294,900	18.5
Bruce Burrell (ii)	26,700	-	2,700	29,400	17.6

(i) resigned on 25 August 2008

(ii) resigned on 01 October 2008

There were no alterations to the terms and conditions of options and shares granted as remuneration since their grant date.

There were no forfeitures during the period.

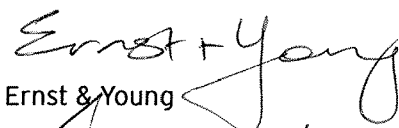
Signed in accordance with a resolution of the directors.




Richard Rossiter
Managing Director
31 March 2009

Auditor's Independence Declaration to the Directors of Morning Star Holdings (Australia) Limited

In relation to our audit of the financial report of Morning Star Holdings (Australia) Limited for the financial year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A stylized signature of 'Ernst + Young' in a cursive script.
Ernst & Young

A stylized signature of Trent van Veen in a cursive script.
Trent van Veen
Partner
31 March 2009

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Corporate governance statement

Morning Star Holdings (Australia) Limited ("**Company**") has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. During the 2008 financial year ("**Reporting Period**") the Board undertook an extensive review of its governance practices. Some of these policies and procedures are summarised in this statement.

Commensurate with the spirit of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* ("**Principles & Recommendations**"), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company's corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the "if not, why not" regime. Due to the review the Board has undertaken however, some of the "if not, why not" reporting is only applicable for a portion of the Reporting Period.

Further information about the Company's corporate governance practices including the relevant information on the Company's charters, code of conduct and other policies and procedures is set out on the Company's website at www.msh.net.au.

"If Not, Why Not" Disclosure

During the Company's Reporting Period the Company has followed each of the Principles & Recommendations other than in relation to the matters specified below.

Principles 1 to 8

Recommendations: 1.3, 2.6, 3.3, 4.4, 5.2, 6.2, 7.4 and 8.3

Notification of Departure: For a portion of the Reporting Period, specific material identified in each of the above recommendations was not made publicly available on the Company's website.

Explanation for Departure: During the Reporting Period the Company undertook an extensive review of its governance practices. As part of this process the Board adopted a comprehensive suite of new governance documentation and as part of its implementation arranged to have the Company's website updated with the appropriate website disclosure. Therefore the Company now makes the full disclosure in accordance with the Principles & Recommendations.

Principles 1, 3, 5-7

Recommendations: 1.1, 3.1, 3.2, 5.1, 6.1 and 7.1

Notification for Departure: For a portion of the Reporting Period the Board had not formalised some of its governance practices.

Explanation for Departure: While the Board had in place some procedures these were not formalised until a review of the Company's governance was undertaken during the Reporting Period. However, as a result of the review process the Board has now adopted and implemented a comprehensive suite of governance documents and now follows all of the above recommendations.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Corporate governance statement (continued)

Principle 2

Recommendation 2.1: A majority of the Board should be independent directors

Notification of Departure: The Company does not have a majority of independent directors. Presently the Board is comprised of an equal number of independent and non independent directors

Explanation for Departure: While the Board previously comprised a majority of independent directors, as a result of changes to the Board during the Reporting Period, the Board no longer consists of a majority of independent directors. However, the Board considers that its current composition is appropriate for the Company's size, operations and future direction and includes an appropriate mix of skills and expertise, relevant to the Company's business. In particular, the Board considers that Mr Rossiter's change in role from a non executive to the Managing Director provides an important level of continuity at operational and board level and an excellent foundation for the next phase of development.

Principle 2

Recommendation 2.4: The Board should establish a Nomination Committee

Notification of Departure: The full Board fulfils the function of a Nomination Committee.

Explanation for Departure: During the Reporting Period, the Board undertook those matters that would usually be the responsibility of a nomination committee. Given the size and composition of the Board, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. The Board has adopted a Nomination Committee Charter which it applies, as relevant.

Principle 4

Recommendation 4.1 and 4.2: The Board should establish an Audit Committee and structure it in accordance with the recommendation.

Notification of Departure: The full Board fulfils the function of an Audit Committee.

Explanation for Departure: During the Reporting Period, the Board undertook those matters that would usually be the responsibility of an audit committee. Further, due to the composition of the Board, it is not possible for the Board to form an audit committee in accordance with the recommended structure. Therefore, the Board considers that no efficiencies or other benefits would be gained by establishing a separate committee. The Board has adopted an Audit Committee Charter which it applies, as relevant.

Principles 8

Recommendation 8.1: The Board should establish a Remuneration Committee

Notification of Departure: The full Board fulfils the function of a Remuneration Committee.

Explanation for Departure: During the Reporting Period, the Board undertook those matters that would usually be the responsibility of a remuneration committee. Given the size and composition of the Board, the Board considers that no efficiencies or other benefits would be gained by

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Corporate governance statement (continued)

establishing a separate committee. The Board has adopted a Remuneration Committee Charter which it applies, as relevant.

NOMINATION COMMITTEE

The full Board carries out the role of the Nomination Committee. The full Board did not officially convene as a Nomination Committee during the Reporting Period, however nomination related discussions occurred from time to time during the year as required. To assist the Board to fulfil its function as the Nomination Committee, it has adopted a Nomination Committee Charter (available on the Company's website).

AUDIT COMMITTEE

The full Board, in its capacity as the Audit Committee, held 2 meetings during the Reporting Period. When the Board meets as the Audit Committee, Grant Button chair's the meeting. To assist the Board to fulfil its function as the Audit Committee, it has adopted an Audit Committee Charter (available on the Company's website).

Details of each of the director's qualifications are set out in the Director's Report

REMUNERATION COMMITTEE

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' Report.

The full Board, in its capacity as the Remuneration Committee, held 1 meeting during the Reporting Period. To assist the Board to fulfil its function as the Remuneration Committee, it has adopted a Remuneration Committee Charter (available on the Company's website).

OTHER

Skills, Experience, Expertise and term of office of each Director

A profile of each director containing their skills, experience and expertise is set out in the Directors' Report.

Assurances to the Board

The Board has received assurance from management that the Company's management of its material business risks are effective. Further, the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) have provided a declaration in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Corporate governance statement (continued)

Identification of Independent Directors and the Company's Materiality Thresholds

In considering the independence of directors, the Board refers to its *Policy on Assessing the Independence of Directors* (available on the Company's website).

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's *Board Charter* (available on the Company's website):

- Balance sheet items are material if they have a value of more than 10% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 10% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 10% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 10%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The independent directors of the Company are Grant Button and Clive Sinclair-Poulton.

Statement concerning availability of Independent Professional Advice

To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

During the Reporting Period an evaluation of the performance of the Board, its committees and individual directors was not carried out.

During the Reporting Period a performance evaluation for senior executives was not carried out.

A performance review will be performed during the next Reporting Period.

Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Balance sheets

As at 31 December 2008

		Consolidated	Parent	
		2008	2008	2007
	Note	\$	\$	\$
ASSETS				
Current assets				
Cash and cash equivalents	9	6,583,519	6,345,968	9,294,147
Trade and other receivables	10	885,125	-	6,576
Inventories	11	103,820	-	-
Other current assets		38,431	38,431	3,028
Total current assets		7,610,895	6,384,399	9,303,751
Non-current assets				
Investment in subsidiary	23b	-	1,887,832	-
Property, plant and equipment	13	1,561,155	3,908	-
Deferred tax assets	7	141,245	141,245	27,976
Total non-current assets		1,702,400	2,032,985	27,976
TOTAL ASSETS		9,313,295	8,417,384	9,331,727
LIABILITIES				
Current liabilities				
Trade and other payables	15	1,041,065	84,615	76,246
Interest-bearing loans & Borrowings	16	99,062	-	-
Total current liabilities		1,140,127	84,615	76,246
Non-current liabilities				
Interest-bearing loans & borrowings	16	63,350	-	-
Deferred tax liabilities	7	39,898	39,898	-
Total non-current liabilities		103,248	39,898	-
TOTAL LIABILITIES		1,243,375	124,513	76,246
NET ASSETS		8,069,920	8,292,871	9,255,481
EQUITY				
Equity attributable to equity holders of the parent				
Contributed equity	17	10,022,465	10,022,465	7,584,787
Retained earnings	18a	(2,093,255)	(1,785,124)	1,640,094
Reserves	18b	140,710	55,530	30,600
Parent interests		8,069,920	8,292,871	9,255,481
Minority interests		-	-	-
TOTAL EQUITY		8,069,920	8,292,871	9,255,481

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

Income statements
For the year ended 31 December 2008

		Consolidated	Parent	
		2008	2008	2007
	Note	\$	\$	\$
Continuing Operations				
Sale of goods		2,450,319	-	-
Interest Income		589,591	589,324	504,586
Other revenue		180	-	-
Revenue		3,040,090	589,324	504,586
Cost of sales		(2,179,659)	-	-
Gross profit		860,431	589,324	504,586
Other income		52,508	55,121	-
Share maintenance expenses		(86,504)	(86,504)	-
Occupancy Expenses		(60,851)	(39,991)	(3,918)
Share based compensation expense		(231,230)	(231,230)	(33,300)
Administrative expenses	6a	(3,509,755)	(3,189,359)	(242,708)
Other expenses	6b	(864,988)	(626,550)	(178,832)
Finance costs		(23,374)	-	-
(Loss)/Profit from continuing operations before income tax		(3,863,763)	(3,529,189)	45,828
Income tax benefit/(expense)	7	73,371	73,371	(5,684)
Net (Loss)/profit for the period		(3,790,392)	(3,455,818)	40,144
Attributable to:				
Minority interest		26,443	-	-
Members of the parent		(3,763,949)	(3,455,818)	40,144
		Cents		Cents
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:	8			
Basic earnings per share		(3.93)	-	0.02
Diluted earnings per share		(3.93)	-	0.02

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Statements of changes in equity For the year ended 31 December 2008

Consolidated

	Issued share capital \$	Retained income \$	Reserves \$	Total \$	Minority interest \$	Total equity \$
Balance as at 1 January 2007	975,000	1,599,950	-	2,574,950	-	2,574,950
Shares issued during the year	6,920,000	-	-	6,920,000	-	6,920,000
Less: capital raising costs	(312,913)	-	-	(312,913)	-	(312,913)
Options expensed during the period	-	-	33,300	33,300	-	33,300
Transfer of options expense on exercise of DEOP options	2,700	-	(2,700)	-	-	-
Profit for the period	-	40,144	-	40,144	-	40,144
Balance as at 31 December 2007	7,584,787	1,640,094	30,600	9,255,481	-	9,255,481
Shares issued during the year	2,261,977	-	-	2,261,977	-	2,261,977
Employee share plan	175,701	-	-	175,701	-	175,701
Share based payment reserve transferred to retained income	-	30,600	(30,600)	-	-	-
Minority interest acquired	-	-	-	-	26,443	26,443
(Loss) for the period	-	(3,763,949)	-	(3,763,949)	(26,443)	(3,790,392)
Share based compensation reserve	-	-	55,530	55,530	-	55,530
Foreign currency translation reserve	-	-	85,180	85,180	-	85,180
Balance as at 31 December 2008	10,022,465	(2,093,255)	140,710	8,069,920	-	8,069,920

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Statements of changes in equity For the year ended 31 December 2008

Company

	Issued capital \$	Retained income \$	Reserves \$	Total equity \$
Balance as at 1 January 2007	975,000	1,599,950	-	2,574,950
Shares issued during the year	6,920,000	-	-	6,920,000
Less: capital raising costs	(312,913)	-	-	(312,913)
Options expensed during the period	-	-	33,300	33,300
Transfer of options expense on exercise of DEOP options	2,700	-	(2,700)	-
Profit for the period	-	40,144	-	40,144
Balance as at 31 December 2007	7,584,787	1,640,094	30,600	9,255,481
Shares issued during the year	2,261,977	-	-	2,261,977
Employee share plan	175,701	-	-	175,701
Share based payment reserve transferred to retained income	-	30,600	(30,600)	-
(Loss) for the period	-	(3,455,818)	-	(3,455,818)
Share based compensation reserve	-	-	55,530	55,530
Balance as at 31 December 2008	10,022,465	(1,785,124)	55,530	8,292,871

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Cash flow statements

For the year ended 31 December 2008

		Consolidated	Parent	
		2008	2008	2007
	Note	\$	\$	\$
Cash flows from operating activities				
Receipts from customers		2,301,241	-	-
Payments to suppliers and employees		(3,124,905)	(814,199)	(429,014)
Interest received		511,717	511,450	504,586
Finance charges		(23,374)	-	-
Income tax payments		(6,578)	(6,578)	(15,000)
Net cash flows (used in)/from operating activities	19	(341,899)	(309,327)	60,572
Cash flows from investing activities				
Purchase of property, plant and equipment (refer to note 13)		(61,746)	(4,367)	-
Costs incurred on acquisition of subsidiary/investment (refer to note 23)		(290,267)	(290,267)	-
Acquisition of subsidiary/investment (refer to note 23)		(803,251)	(1,161,752)	-
Net cash flows used in investing activities		(1,155,264)	(1,456,386)	-
Cash flows from financing activities				
Proceeds from issue of shares		-	-	6,920,000
Share issue cost		-	-	(312,913)
Loan granted (note 12)		(1,182,466)	(1,182,466)	-
Payment of finance lease liabilities		(28,433)	-	-
Net cash flows (used in)/from financing activities		(1,210,899)	(1,182,466)	6,607,087
Net (decrease)/increase in cash and cash equivalents held		(2,708,062)	(2,948,179)	6,667,659
Net foreign exchange differences		(2,566)	-	-
Cash and cash equivalents at the beginning of period		9,294,147	9,294,147	2,626,488
Cash and cash equivalents at end of period	9	6,583,519	6,345,968	9,294,147

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements

1 Corporate information

The financial report of Morning Star Holdings (Australia) Limited ("Morning Star" or the "Company") for the year ended 31 December 2008 was authorized for issue in accordance with a resolution of the Directors on 31 March 2009.

The Company is limited by shares and incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2 Summary of significant accounting policies

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, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial statements have been prepared on an accruals basis of historical cost.

The financial report is presented in Australian dollars.

(a) Compliance with IFRS

The financial report also complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(b) New accounting standards and interpretations

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective and have not been adopted by the consolidated entity for the year ended 31 December 2008. These Standards and Interpretations give rise to additional disclosure without material effect on the financial position and performance of the Company.

These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
AASB 101 (revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 Jan 09	These amendments are only expected to affect the presentation of the Company's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Company has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 09
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 Jan 09	The Company has share-based payment arrangements that may be affected by these amendments. However, the Company has not yet determined the extent of the impact, if any.	1 July 09
Amendments to International Financial Reporting Standards*	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognized in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 Jan 09	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognized by the parent entity after adoption of these amendments. In addition, if the Company enters into any company reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value. The Company has not yet determined the extent of the impact of the amendments, if any.	1 July 09

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(b) New accounting standards and interpretations (continued)

Reference	Title	Summary	Application date of standard*	Impact on Company financial report	Application date for Company
Amendments to International Financial Reporting Standards*	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 Jan 09 except for amendments to IFRS 5, which are effective from 1 July 09.	The Company has not yet determined the extent of the impact of the amendments, if any.	1 July 09

* Pronouncements that have been issued by the IASB and IFRIC but have not yet been issued by AASB.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Morning Star Holdings (Australia) Limited and its subsidiaries as at 31 December each year (the Group).

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

In preparing the consolidated 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 obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by Morning Star are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note 23).

Minority interests in the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity. Minority interests are not recognised when the minorities share of assets and liabilities results in an accumulated loss.

(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. 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. 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 of the net assets acquired.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) Foreign currency translation

(i) *Functional and presentation currency*

Both the functional and presentation currency of Morning Star is Australian dollars (\$). The South African subsidiaries' functional currency is South African Rand which is translated to presentation currency (see below).

(ii) *Transactions and balances*

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

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(iii) *Translation of Group Companies functional currency to presentation currency*

The results of the South African subsidiary are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at balance date.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(f) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

(g) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(h) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realizable 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. The cost of purchase comprises the purchase price including the transfer from equity of gains and losses on qualifying cash flow hedges of purchases of raw materials, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Net realizable 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.

(i) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All regular way purchases and sales of financial assets are recognized on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognized when the right to receive cash flows from the financial assets have expired or been transferred.

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in profit or loss and the related assets are classified as current assets in the balance sheet.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in profit and loss when the loans and receivables are derecognized or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(j) Property, Plant & equipment

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

Land and buildings are measured at cost, less accumulated depreciation on buildings and less any impairment losses recognized after the date of revaluation.

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

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

Land – not depreciated

Buildings – over 20 years

Plant and equipment – over 5 years

Other plant and equipment – over 6 years

Motor vehicles – over 5 years

Computer equipment – over 3 years

Computer software – over 2 years

Office furniture and equipment – 6 years

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

Derecognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

(k) 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 the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased tem, are capitalised at the inception of the lease at the fair value of the leased asset 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 expensed in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(m) Goodwill

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated includes:

- Alumicor SA Holdings Proprietary Limited and controlled entities

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates.

Morning Star Holdings (Australia) Limited performs its impairment testing as at 31 December each year using the higher of fair value less costs to sell and a value in use, discounted cash flow methodology for Alumicor to which goodwill and indefinite lived intangibles have been allocated. Further details on the methodology and assumptions are outlined in note 14.

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(n) Trade and other payables

Trade payables and other payables are carried at amortised cost due to their short term nature they are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(o) Provisions and employee benefits

Provisions are recognized 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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognized in finance costs.

Employee leave benefits

i. Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognized 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. Expenses for non-accumulating sick leave are recognized when the leave is taken and are measured at the rates paid or payable.

ii. Long service leave

The liability for long service leave is recognized and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(p) Share-based payment transactions

(i) Equity settled transactions

The Group provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently two plans in place to provide these benefits:

- the Option Plan (OP), which provides benefits to Directors and senior executives; and
- the Share Plan (SP), which provides benefits to Directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes model, further details of which are given in note 22.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Morning Star (market conditions) if applicable.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) The grant date fair value of the award
- (ii) The current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met
- (iii) The expired portion of the vesting period

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by Morning Star to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense is recognised by Morning Star in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 8).

(q) 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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

(r) Revenue recognition

Revenue is recognized and measured at the fair value of the consideration received or receivable 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 recognized:

(i) Sale of goods

Revenue from the sale of goods is recognized when there is persuasive evidence, usually in the form of an executed sales agreement at the time of delivery of the goods to the customer, indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

(ii) Rendering of services

Revenue from the toll treatment of aluminium dross is recognized by reference to the stage of completion of a contract or contracts in progress at balance date or at the time of completion of the contract and billing to the customer.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract which is determined by a set quotation with the customer. As the contracts are reasonably short, there is only a small amount outstanding at balance date, as such the level of judgment required is minimal.

When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

(iii) Interest revenue

Revenue is recognized as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(iv) Dividends

Revenue is recognized when the Group's right to receive the payment is established.

(s) Income tax and other taxes

Current tax assets and liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. 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 recognized 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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

- 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 recognized for all deductible temporary differences, carry-forward of unused tax credits 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 utilized 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.
- 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 recognized 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 utilized.

Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized 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 realized 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.

Other taxes

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

- When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable
- Receivables and payables, which are stated with the amount of GST included

The net amount of GST 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 component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(t) 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 is calculated as net profit attributable to members of the Parent adjusted for:

- costs of servicing equity (other than dividends),
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognized as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3 Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, finance leases, cash and short – term deposits.

Risk exposures and responses

Interest rate risk

The Group's exposure to market interest relates primarily to the Group's cash and short term deposits.

At balance date, the Group had the following mix of financial assets and liabilities exposed to Variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Financial assets			
Cash and cash equivalents	6,583,519	6,345,968	9,294,147
Loan to other party (note 12)	-	-	-
Total	6,583,519	6,345,968	9,294,147

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

3 Financial risk management objectives and policies (continued)

At 31 December, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post tax profit Higher/(lower)		Equity Higher/(lower)	
	2008 \$	2007 \$	2008 \$	2007 \$
Consolidated				
+1% (100 basis points)	45,929	-	-	-
-.5% (50 basis points)	(22,964)	-	-	-
Parent				
+1% (100 basis points)	44,649	65,059	-	-
-.5% (50 basis points)	(22,325)	(32,530)	-	-

The movements in profit are due to higher/lower interest returns from variable rate cash balances.

The sensitivity increases and decreases in interest rate have been selected as this is considered reasonable given the current level of interest rates and the volatility observed and market expectations for potential future movements.

Foreign currency risk

As a result of significant operations in South Africa and large transactions denominated in South African Rand as well as a loan receivable denominated in South African Rand (2008 ZAR8,366,667), the Group's balance sheet can be affected significantly by movements in the A\$/ZAR exchange rates. The exposure in the loan receivable has been mitigated as a full provision for impairment was recognised at 31 December 2008.

The following sensitivity is based on the foreign currency risk exposures in existence at the balance sheet date.

At 31 December 2008, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post tax profit Higher/(lower)		Equity Higher/(lower)	
	2008 \$	2007 \$	2008 \$	2007 \$
Consolidated				
AUD/ZAR + 20%	7,700	-	-	-
AUD/ZAR - 10%	(3,850)	-	-	-
Parent				
AUD/ZAR + 20%	7,700	-	-	-
AUD/ZAR - 10%	(3,850)	-	-	-

The sensitivity increases and decreases in exchange rate have been selected as this is considered reasonable given the current level of exchange rates and the volatility observed and market expectations for potential future movements.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

3 Financial risk management objectives and policies (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables. The Group's exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets (as outlined in each applicable note).

The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and committed available credit lines. The table below reflects all contractually fixed pay-offs and receivables for settlement, repayments and interest resulting from recognised financial liabilities. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 31 December 2008.

The remaining contractual maturities of the Group's and parent entity's financial liabilities are:

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
6 months or less	1,090,596	84,615	76,246
6 – 12 months	49,531	-	-
1 – 5 years	63,350	-	-
	1,203,477	84,615	76,246

4 Significant accounting 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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

4 Significant accounting estimates and assumptions (continued)

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

(i) Significant Accounting Judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Given the current uncertain economic environment management considered that the indicators of impairment were significant enough and as such these assets have been tested for impairment in this financial period, and adjustment made to the carrying value of non current assets.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognized unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, restoration costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact on the amount of deferred tax assets and deferred tax liabilities recognized on the balance sheet and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amounts of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

Consolidation

Alumicor SA Holdings (Pty) Ltd operates as an aluminium scrap and dross re-smelting operation as directed by the Group. In addition the Group has the rights to the intellectual property obtained through the research and development activities including the right to manufacture and distribute products. As a result the Group has deemed that they effectively control Alumicor SA Holdings (Pty) Ltd, through ownership and control, and thus consolidate Alumicor SA Holdings (Pty) Ltd.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

4 Significant accounting estimates and assumptions (continued)

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 using a Black Scholes model, with the assumptions detailed in note 21. 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.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

5 Segment Information

The Group's primary segment reporting format is geographic segments as the principle business unit is located in South Africa

The following tables present revenue and profit information and certain asset and liability information regarding the business segment for the five month period ended 31 December 2008.

	Alumicor SA Holdings (Pty) Ltd \$
5 month period ended 31 December 2008	
Revenue	
Sales to external customers	2,450,319
Other revenue	449
Total consolidated segment revenue	<u>2,450,768</u>
Result	
Segment results	(894,397)
Finance costs	<u>(23,374)</u>
Net loss for period	<u>(917,771)</u>
Assets and liabilities	
Segment assets	<u>2,783,743</u>
Segment liabilities	<u>3,614,734</u>
Depreciation	202,228
Impairment losses	<u>571,263</u>

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

6 Expenses

Expenses from Continuing Operations

	Consolidated 2008 \$	2008 \$	Company 2007 \$
(a) Amounts included in administrative expenses			
Impairment of goodwill	1,242,967	-	-
Impairment provision loan	1,289,803	1,289,803	-
Impairment of fixed assets	583,197	-	-
Finance charges	23,374	-	-
Depreciation	44,403	460	-
Impairment of investment in subsidiary	-	1,826,166	-
(b) Amounts included in other expenses			
Wages and salaries	663,577	168,560	120,000
Administrative fine	129,716	-	-
(c) Amount included in cost of sales			
Depreciation	158,285	-	-

7 Income tax

	Consolidated 2008 \$	2008 \$	Company 2007 \$
(a) Income tax expense			
<i>The major components of income tax expense are:</i>			
<i>Current income tax</i>			
Adjustment in respect of current income tax of previous years	1	1	721
Current income tax (benefit)/charge	(99,861)	(99,861)	(16,785)
<i>Deferred income tax</i>			
Relating to origination and reversal of temporary differences	26,489	26,489	21,748
	(73,371)	(73,371)	5,684

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

7 Income tax (continued)

	Consolidated 2008 \$	2008 \$	Company 2007 \$
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate			
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:			
Total accounting (loss)/profit before income tax	(3,863,763)	(3,529,189)	45,828
At the Parent entity's statutory income tax rate of 30% (2007: 30%)	(1,159,129)	(1,058,757)	13,748
Adjustments in respect of current income tax of previous years	1	1	721
Section 40-880	(18,775)	(18,775)	(18,775)
Share based payments	69,369	69,369	9,990
Non deductible goodwill	372,890	372,890	-
Impairment of loans not recognised as a deferred tax asset	386,942	386,942	-
Impairment of fixed assets not recognised a deferred tax asset	174,959	174,959	-
Tax losses not recognised as a deferred tax asset	100,372	-	-
Income tax (benefit)/expense	(73,371)	(73,371)	5,684

	Consolidated 2008 \$	2008 \$	Company 2007 \$
(c) Recognised deferred tax assets and liabilities			
Deferred income tax at 31 December relates to the following:			
<i>Deferred tax asset</i>			
Temporary differences - Accrued expenses	13,407	13,407	-
Temporary differences - Tax losses	127,838	127,838	27,976
Gross deferred income tax assets	141,245	141,245	27,976
<i>Deferred tax liabilities</i>			
Temporary differences - Unrealised exchange gains	16,536	16,536	-
Temporary differences – interest receivables	23,362	23,362	-
Gross deferred income tax liabilities	39,898	39,898	-

The group has not recognised a Deferred Tax Asset on the balance sheet for the following items which are available for indefinite offset against future gains subject to continuing to meet relevant statutory tests:

	\$
Tax losses	100,372
Impairment of loan	386,942
Impairment of fixed assets	174,959

	Consolidated 2008 \$	2008 \$	Company 2008 \$
(d) Income tax payable			
Current income tax refundable	-	-	(3,028)

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

8 Earnings per share

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

(a) Earnings used in calculating earnings per share

	Consolidated 2008 \$	Company 2007 \$
Net (loss)/profit from continuing operations attributable to ordinary equity holders of the parent	(3,790,392)	40,144

(b) Weighted average number of ordinary shares

(Weighted average number of ordinary shares for basic and diluted earnings per share)

96,540,236	158,851,629
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The diluted earnings per share has not been adjusted for the conversion of options to ordinary shares as the impact is antidilutive

9 Cash and cash equivalents

	Consolidated 2008 \$	Company 2008 \$	2007 \$
Cash at bank and in hand	523,519	285,968	-
Short-term deposits	6,060,000	6,060,000	9,294,147
	6,583,519	6,345,968	9,294,147
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:			
Cash at bank and in hand	523,519	285,968	-
Short-term deposits	6,060,000	6,060,000	9,294,147
	6,583,519	6,345,968	9,294,147

10 Current assets – trade and other receivables

	Consolidated 2008 \$	Company 2008 \$	2007 \$
Trade and other Receivables	885,125	-	6,576
Allowance for impairment loss	-	-	-
Carrying amount of trade receivables	885,125	-	6,576

(a) Allowance for impairment loss

Trade receivables are receivable in South African Rand, are non-interest bearing and are generally on 30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Balances within trade receivables do not contain impaired assets and are not past due. It is expected that the balances will be received when due.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

11 Current assets – inventories

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Raw materials (at cost)	103,820	-	-

(a) Inventory expense

Inventories recognised as an expense for the period ended 31 December 2008 totalled \$1,324,976.

12 Non-current assets - receivables

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Loan to African Dune (a)	1,289,803	1,289,803	-
Provision for impairment	(1,289,803)	(1,289,803)	-
Carrying amount of non-current receivables	-	-	-

The loan to African Dune is receivable in South African Rand. The loans to key management personnel are receivable in Australian Dollars. As the repayment source of the African Dune loan is in doubt a provision for full impairment has been raised.

(a) Loan to African Dune

Morning Star and African Dune have entered into a loan agreement whereby Morning Star has lent African Dune R8,000,000 at 11%. A Deed of Pledge and Cession has been signed as security for the current and future obligations of African Dune under the loan agreement. Under the terms of the Deed of Pledge and Cession, African Dune pledges its shares in Alumicor SA Holdings (Proprietary) Limited.

Movements in the provision for impairment were as follows:

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
At 1 January	-	-	-
Provision for impairment	1,289,803	1,289,803	-
At 31 December	1,289,803	1,289,803	-

(b) Fair values

The fair values of non-current receivables of the Group and Company are consistent with the carrying values.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

The fair values are based on cash flows discounted at a rate reflecting the current market rates.

(c) Foreign exchange and interest rate risk

Detail regarding foreign exchange and interest rate risk exposure is disclosed in note 3.

(d) Credit risk

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables.

13 Non-current assets – property, plant and equipment

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated					
	Land and Buildings \$	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Office furniture and equipment \$	Total \$
Year ended 31 December 2008						
At 1 January 2008 net of accumulated depreciation	-	-	-	-	-	-
Acquisition of subsidiary	964,241	992,761	212,561	17,408	8,119	2,195,090
Additions	-	55,578	-	4,556	1,612	61,746
Impairment (i)	-	(465,664)	(95,419)	(13,456)	(8,658)	(583,197)
Disposals	-	-	-	(3,284)	-	(3,284)
Exchange differences	40,230	43,415	8,661	765	417	93,488
Depreciation charge for the year	(8,306)	(160,426)	(30,383)	(2,083)	(1,490)	(202,688)
At 31 December 2008 net of accumulated depreciation- Net carrying amount	996,165	465,664	95,420	3,906	-	1,561,155
At 31 December 2008						
Cost at fair value	1,004,471	1,091,754	221,222	19,445	10,148	2,347,040
Accumulated depreciation and impairment	(8,306)	(626,090)	(125,802)	(15,539)	(10,148)	(785,885)
	996,165	465,664	95,420	3,906	-	1,561,155

(i) Impairment of Plant and equipment, Motor vehicles, Computer equipment and office furniture and equipment

Within the Alumicor cash generating unit, recoverable value was estimated for certain items of Plant and equipment, Motor vehicles, Computer equipment and office furniture and equipment. The recoverable amount estimation was based on fair value less costs to sell and was determined at the cash generating level. The fair value was determined by reference to an independent valuation and directors estimates. As a result an impairment loss of \$583,197 was recognised to reduce the carrying amount to recoverable amount. This has been recognised in the income statement in the line item 'administration'.

The impairment of assets has resulted from revenue, being negatively impacted by lower volumes while costs suffered due to rising input costs. This has resulted in losses being incurred at Alumicor SA Holdings (Pty) Limited.

Costs were largely affected by the significant increase in the cost of salt flux, and increased management and supervision costs required to resolve the recovery problems.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

13 Non-current assets – property, plant and equipment (continued)

	Parent
	Computer equipment \$
Year ended 31 December 2008	
At 1 January 2008 net of accumulated depreciation	-
Additions	4,367
Depreciation charge for the year	(459)
At 31 December 2008 net of accumulated depreciation- Net carrying amount	<u>3,908</u>

14 Non-current assets – goodwill

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Consolidated Goodwill \$	Parent Total \$
Year ended 31 December 2008		
At 1 January 2008	-	-
Acquisition of subsidiary (note 23)	1,242,967	-
Impairment	(1,242,967)	-
At 31 December 2008 – Net carrying amount	<u>-</u>	<u>-</u>

(b) Description of the Group's intangible assets and goodwill

(i) Goodwill

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

(c) Impairment tests for goodwill

The recoverable amount of the Alumicor cash generating unit has been determined based on recoverable fair value less costs to sell. The fair value was determined by reference to carrying amount, independent valuation and directors estimates.

The impairment of goodwill has resulted from revenue, being negatively impacted by lower volumes while costs suffered due to rising input costs. This has resulted in losses being incurred at Alumicor SA Holdings (Pty) Limited.

Costs were largely affected by the significant increase in the cost of salt flux, and increased management and supervision costs required to resolve the recovery problems.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

15 Current liabilities – trade and other payables

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Trade payables	956,450	-	-
Other payables	84,615	84,615	76,246
Carrying amount of trade and other payables	1,041,065	84,615	76,246

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Guarantees

Morning Star Holdings (Australia) Limited has a subordination agreement with Alumicor SA Holdings Proprietary Limited to guarantee its creditors.

16 Interest- bearing loans and borrowings

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Current			
Obligations under finance leases and hire purchase contracts (note 24)	99,062	-	-
	99,062	-	-
Non - current			
Obligations under finance leases and hire purchase contracts (note 24)	63,350	-	-
	63,350	-	-

The loans are secured by the equipment financed, interest is charged at variable rates between 16.9% and 21.8%.

(a) Fair values

The carrying amount of the Group's current and non-current borrowings approximate fair value.

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note three.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

17 Contributed equity

	Consolidated 2008 \$	Company 2008 \$	2007 \$
Ordinary shares (a)	10,022,465	10,022,465	7,584,787
	<u>10,022,465</u>	<u>10,022,465</u>	<u>7,584,787</u>

(a) Ordinary shares

	No.	No.	No.
Issued and fully paid	104,707,809	104,707,809	182,295,777 (i)

(i) This represents pre-consolidation shares of 182,295,777 and post-consolidation shares of 91,147,924.

Fully paid ordinary shares carry one vote per share and carry the rights to dividends.

	No.	\$
<i>Movement in ordinary shares on issue</i>		
At 1 January 2007	67,012,504	975,000
Shares issued	114,983,273	6,899,000
Exercise of options	300,000	23,700
Transaction costs		(312,913)
At 1 January 2008	<u>182,295,777</u>	<u>7,584,787</u>
Share consolidation	(i) (91,147,853)	-
Employee share scheme issue	(ii) 2,250,000	175,701
Shares issued for subsidiary	(iii) <u>11,309,885</u>	<u>2,261,977</u>
At 31 December 2008	<u>104,707,809</u>	<u>10,022,465</u>

- (i) On 22 July 2008 the capital of the Company was reorganised by way of consolidating every two ordinary fully paid shares in the capital of the Company into one fully paid ordinary share.
- (ii) On 18 July 2008 2,250,000 shares were issued under the employee share scheme.
- (iii) Issued on 1 August 2008 in exchange for business combination of \$2,261,977. See note 23.

(b) Capital management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

As the equity market is constantly changing management may issue new shares to provide for future expansion and development activity.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

18 Retained earnings and reserves

(a) Movements in retained earnings were as follows:

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
Balance 1 January	1,640,094	1,640,094	1,599,950
Net (loss)/profit	(3,763,949)	(3,455,818)	40,144
Share based payment reserve transferred to retained income	30,600	30,600	-
	(2,093,255)	(1,785,124)	1,640,094

(b) Other reserves

	Employee equity benefits reserve	Consolidated		Parent
	\$	Foreign currency translation	Total	Employee equity benefits reserve
	\$	\$	\$	\$
At 1 January 2007	-	-	-	-
Share based payment	30,600	-	30,600	30,600
At 31 December 2007	30,600	-	30,600	30,600
Share based payment transferred to retained earnings	(30,600)	-	(30,600)	(30,600)
Employee share plan	55,530	-	55,530	55,530
Foreign currency translation	-	85,180	85,180	-
At 31 December 2008	55,530	85,180	140,710	55,530

(c) Nature and purpose of reserves

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share based payments provided to employees, including KMP, as part of their remuneration. Refer to note 21 for further details of these plans.

Foreign currency translation reserve

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

19 Cash flow statement reconciliation

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
(a) Reconciliation of net profit after tax to net cash flows from operations			
Net (loss)/profit	(3,790,392)	(3,455,818)	40,144
<i>Adjustments for:</i>			
Depreciation	202,688	460	-
Impairment provision – African Dune loan	1,289,803	1,289,803	-
Impairment – investment in subsidiary	-	1,826,166	-
Impairment of goodwill	1,242,967	-	-
Impairment of fixed assets in subsidiary	571,263	-	-
Net gain on foreign exchange	(55,121)	(55,121)	-
Share based payments expense	231,230	231,230	33,300
<i>Changes in assets and liabilities</i>			
(increase)/decrease in inventories	31,263	-	-
(increase)/decrease in trade and other receivables	(226,353)	(74,469)	37,053
(increase)/decrease in current tax assets	(6,576)	(6,576)	-
(increase)/decrease in deferred tax assets	(113,269)	(113,269)	4,963
(decrease)/increase in deferred tax liabilities	39,898	39,898	-
(decrease)/increase in trade and other payables	240,700	8,369	(40,608)
(decrease)/increase in tax provision	-	-	(14,280)
Net cash from operating activities	(341,899)	(309,327)	60,572

20 Related party disclosure

(a) Subsidiaries

The consolidated financial statements include the financial statements of Morning Star Holdings (Australia) Limited and its 74% owned subsidiary Alumicor Holdings SA Pty Limited (incorporated in South Africa).

(b) Ultimate parent

Morning Star Holdings (Australia) Limited is the ultimate parent entity.

(c) Key management personnel

Details to KMP, including remuneration paid, are included in note 21.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

20 Related party disclosure (continued)

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

	2008 \$
Group	
Rental payment to Marion McConnachie Family Trust	12,036

Related party transactions are made on arms length basis both at normal market prices and on normal commercial terms.

21 Key management personnel

(a) Compensation of key management personnel

Does not include cash compensation of non-executive directors.

	Consolidated 2008 \$	Company 2008 \$	2007 \$
Short - term employee benefits	284,769	284,769	179,548
Post – employment benefits	6,530	6,530	-
Termination benefits	146,000	146,000	-
Share based payment	231,230	231,230	33,300
Total compensation	668,529	668,529	212,848

(b) Option holdings of key management personnel (consolidated)

	Balance at beginning of period 1 January 2008	Granted as remuneration	Options exercised	Net change Other #	Balance at end of period 31 December 2008	Total	Exercisable	Not exercisable
Directors								
Dean Gallegos	3,100,000	1,500,000	-	(3,100,000)	1,500,000	1,500,000	1,500,000	-
Bruce Burrell	300,000	150,000	-	(300,000)	150,000	150,000	150,000	-
	3,400,000	1,650,000	-	(3,400,00)	1,650,000	1,650,000	1,650,000	-

Options expired on 31 May 2008

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

21 Key management personnel (continued)

(c) Shareholdings of key management personnel (consolidated)

Shares held in Morning Star Holdings (Australia) Limited

31 Dec 2008	Balance at beginning of period 1 Jan 08 ordinary	Granted as remuneration ordinary	On exercise of options ordinary	Net change other	Balance at end of period 31 Dec 08
Directors					
Grant Button	-	750,000	-	-	750,000
Richard Rossiter	-	1,500,000	-	-	1,500,000
	-	2,250,000	-	-	2,250,000

All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

(d) Loans to key management personnel

(i) *Details of aggregates of loans to key management personnel are as follows:*

Total	Balance at beginning of period \$	Interest not charged \$	Write-off \$	Balance at end of period \$
Grant Button	-	6,837	-	150,000
Richard Rossiter	-	13,500	-	300,000
	-	20,337	-	450,000

These loans relate to the share plan detailed in note 22 and the carrying value is not reflected in the balance sheet as the loans are non - recourse loans linked to the share plan.

(ii) *Terms and conditions of loans to key management personnel*

Loans to directors are interest free. The average commercial rate of interest during the year was 10.94%.

22 Share-based payment plans

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	Consolidated 2008 \$	Company 2008 \$	2007 \$
Expenses arising from equity – settled share – based payment transactions	231,230	231,230	33,300
Total expense arising from share-based payment transactions	231,230	231,230	33,300

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

22 Share-based payment plans (continued)

The share – based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

(b) Types of share-based payment plans

Option Plan (OP)

Share options may be granted to the Directors, full time or part-time employees of, and consultants to, the Company. The granting of options is at the discretion of the Directors. The options will be issued free of charge and the exercise price is at the discretion of the Directors but may not be less than the weighted average price at which the Shares were traded on ASX during the 5 trading day period immediately before the date of granting of the options.

Share Plan (SP)

Shares in the Company may be issued to Directors, full time or part-time employees of, and consultants to, the Company. The issuing of shares is at the discretion of the Directors. The issue price is at the discretion of the Directors but may not be less than the weighted average price at which the Shares were traded on ASX during the 5 trading day period immediately before the date of issue of the shares. Non-recourse loans will be extended to the participants in the share plan.

The shares issued under the Share Plan may not be transferred or otherwise dealt with, and will not be quoted on ASX, until any loan in respect of the shares has been repaid and a period of 12 months (in relation to one half of the shares offered), 24 months (in relation to the remaining half of the shares offered) has passed from the date of issue.

(c) Summaries of options granted under OP and SP

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options during the year:

	2008		2007	
	2008 No.	WAEP \$	2007 No.	WAEP \$
OP				
Outstanding at the beginning of the year (DEOP) (i)	3,400,000	0.07	-	-
Granted during the year	1,650,000	0.20	4,000,000	0.07
Forfeited during the year	-	-	(300,000)	0.07
Exercised during the year	-	-	(300,000)	0.07
Expired during the year	(3,400,000)	0.07	-	-
Outstanding at the end of the year (OP) (ii)	1,650,000	0.20	3,400,000	0.07
Exercisable at the end of the year	-	-	-	-

- (i) Options outstanding at the beginning of the year were issued under the Directors and Employees Option Plan (DEOP) that was in place at that time
- (ii) Options outstanding at the end of the year were issued under the Option Plan that was implemented during the year approved by shareholders on 18 July 2008.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

22 Share-based payment plans (continued)

The outstanding balance as at 31 December 2008 is represented by:

- 1,650,000 options over ordinary shares with an exercise price of \$0.20 each, exercisable on 31 May 2009

	2008	2008	2007	2007
	No.	WAEP	No.	WAEP
		\$		\$
SP				
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	2,250,000	0.20	-	0.07
Forfeited during the year	-	-	-	0.07
Exercised during the year	-	-	-	0.07
Expired during the year	-	-	-	-
Outstanding at the end of the year	2,250,000	0.20	-	0.07
Exercisable at the end of the year	-	-	-	-

The outstanding balance as at 31 December 2008 is represented by:

- 2,250,000 shares

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options as at 31 December 2008 is 0.41 years (2007: 0.41 years) and for the shares is 4 years (2007: Nil).

(e) Weighted average fair value

The weighted average fair value of options granted during the year was \$0.06 (2007: \$0.09). The weighted average fair value of the shares issued during the year was \$0.15 (2007: Nil)

(f) Option pricing model: OP and SP

Equity – settled transactions

The fair value of the equity – settled share options granted under OP (2007: DEOP) is estimated as at the date of grant using a Black Scholes option pricing model. Expected volatility is based on the historical share price volatility.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

22 Share-based payment plans (continued)

The following table lists the inputs into the models used for the years ended 31 December 2008 and December 2007:

	OP 2008	SP 2008
Grant date share price (\$)	0.178	0.178
Exercise price (\$)	0.2	0.2
Expected volatility (%)	85	85
Option life (years)	0.8	4
Dividend yield (%)	0	0
Risk – free interest rate (%)	5.73	5.73
Weighted average share price at measurement date (\$)	0.06	0.15
Model used	Black - Scholes	Black - Scholes
	DEOP 2007	SP 2007
Grant date share price (\$)	0.07	-
Exercise price (\$)	0.07	-
Expected volatility (%)	18	-
Option life (years)	1.5	-
Dividend yield (%)	0	-
Risk – free interest rate (%)	5.6	-
Weighted average share price at measurement date (\$)	0.09	-
Model used	Black - Scholes	Black - Scholes

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical sector volatility is indicative of further trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

23 Business combination

(a) Acquisition of Alumicor SA Holdings Proprietary Limited

On 1 August 2008 Morning Star Holdings (Australia) Limited acquired 74% of the voting shares of Alumicor SA Holdings Proprietary Limited, an unlisted proprietary company based in South Africa specialising in aluminium cross treatment.

The total cost of the combination was \$3,713,996 and comprised an issue of equity instruments, the payment of cash and costs directly attributable to the combination. The Group issued 11,309,885 ordinary shares with a fair value of \$0.24.

The fair value of the identifiable assets and liabilities of Alumicor SA Holdings Proprietary Limited as at the date of acquisition were:

	Consolidated Recognised on acquisition \$	Carrying value \$
Plant and equipment	2,195,090	2,195,090
Cash and cash equivalents	358,501	358,501
Trade Receivables	733,236	733,236
Inventories	135,083	135,083
Investment	44	44
	<u>3,421,954</u>	<u>3,421,954</u>
Trade payables	737,566	737,566
Share holder loan	2,395,768	2,395,768
Interest bearing debt	186,915	186,915
	<u>3,320,249</u>	<u>3,320,249</u>
Fair value identifiable net assets	<u>101,705</u>	
74% purchased	75,261	
Share holder loan acquired	2,395,768	
Goodwill arising on acquisition	<u>1,242,967</u>	
	<u>3,713,996</u>	
Cost of the combination:		
Shares issued, at fair value	2,261,977	
Cash paid	1,161,752	
Direct costs relating to the acquisition	<u>290,267</u>	
Total cost of the combination	<u>3,713,996</u>	
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	358,501	
Cash paid	<u>(1,161,752)</u>	
Net consolidated outflow	<u>(803,251)</u>	

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

Included in the business acquired was a contingent liability in relation to an administrative fine likely to be imposed by The Department of Agriculture and Environmental Affairs ("DAEA") in South Africa. Since balance sheet date this fine has been imposed and is recorded in note 6.

(b) Investments in subsidiaries

The consolidated financial statements include the following subsidiary:

	Equity interest %		Investment \$	
	2008	2007	2008	2007
Held directly by parent company				
Alumicor SA Holdings (Pty) Limited	74	-	3,713,996	-
Less: impairment			(1,826,166)	-
			<u>1,887,832</u>	-
Held by subsidiary				
Alumicor Maritzburg (Pty) Ltd	100	100	-	-
Alumicor Intellectual Property (Pty) Ltd	100	100	-	-
Nduzi Real Estate Projects (Pty) Ltd	100	100	-	-

(i) Impairment of investment

The recoverable amount of the investment in Alumicor SA Holdings (Pty) Limited has been determined based on recoverable fair value less costs to sell. The fair value was determined by reference to carrying amount, independent valuation and directors estimates.

The impairment of investment resulted from revenue, being negatively impacted by lower volumes while costs suffered due to rising input costs. This has resulted in losses being incurred at Alumicor SA Holdings (Pty) Limited.

Costs were largely affected by the significant increase in the cost of salt flux, and increased management and supervision costs required to resolve the recovery problems.

24 Commitments

(a) Leasing commitments

Finance lease and hire purchase commitments – Group as lessee

The Group has finance leases for various items of machinery with a carrying amount of \$162,412. These lease contracts expire within two years.

	Consolidated 2008 \$	Company 2008 2007 \$	
Within one year	121,305	-	-
After one year but not more than 2 years	77,574	-	-
Total minimum lease payments	198,879	-	-
Less amounts representing finance charges	(36,467)	-	-
Present value of minimum lease payments	162,412	-	-

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

24 Commitments (continued)

(b) Capital expenditure commitments

At 31 December 2008 there are no capital expenditure commitments.

25 Contingencies

There are no contingent liabilities as at 31 December 2008.

26 Events after the balance sheet date

A fine imposed by The Department of Agriculture and Environmental Affairs during February 2009, relates to perceived technical infringements to the application permit for Alumicor SA Holdings (Pty) Limited. The financial statements have been adjusted to include the fine and the fine is being contested with expert help and an appeal has been lodged with the DAEEA.

27 Auditors' remuneration

Auditors' remuneration

The auditor of Morning Star Holdings (Australia) Limited is Ernst & Young

	Consolidated	Company	
	2008	2008	2007
	\$	\$	\$
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>			
• An audit or review of the financial report of the entity and any other entity in the consolidated group	35,000	35,000	25,000
• Other services in relation to the entity and any other entity in the consolidated group			
○ Tax compliance	-	-	8,500
○ Assurance related	-	-	11,500
	35,000	35,000	45,000
<i>Amounts received or due and receivable by related practices of Ernst & Young (Australia) for:</i>			
• An audit or review of the financial report by overseas Ernst & Young firm	45,000	-	-
	80,000	35,000	45,000

Independent auditor's report to the members of Morning Star Holdings (Australia) Limited

Report on the Financial Report

We have audited the accompanying financial report of Morning Star Holdings (Australia) Limited ('the Company'), which comprises the balance sheets as at 31 December 2008, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 the 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. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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 have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:

1. the financial report of Morning Star Holdings (Australia) Limited is in accordance with the *Corporations Act 2001*, including:

giving a true and fair view of the financial position of Morning Star Holdings (Australia) Limited and the consolidated entity at 31 December 2008 and of their performance for the year ended on that date; and

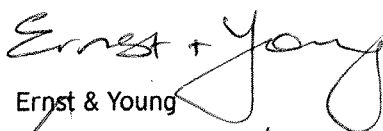
complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

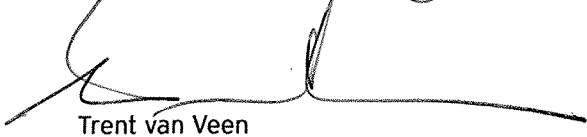
We have audited the Remuneration Report included on pages 10 to 16 of the directors' report for the year ended 31 December 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Morning Star Holdings (Australia) Limited for the year ended 31 December 2008, complies with section 300A of the *Corporations Act 2001*.

The logo for Ernst & Young, featuring a stylized 'EY' symbol followed by the text 'Ernst & Young' in a cursive script.

Ernst & Young

A large, stylized signature in black ink, likely belonging to Trent van Veen.

Trent van Veen
Partner
Sydney
31 March 2009

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Directors' declaration

In accordance with a resolution of the directors of Morning Star Holdings (Australia) Limited, I state that:

1. In the opinion of the directors:

(a) The financial statements, including notes and the additional disclosures included in the directors' report designated as audited, 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.

(ii) Complying with Australian 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 year ending 31 December 2008.



Richard Rossiter
Managing Director
Sydney

31 March 2009

On behalf of the board

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ASX additional information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 23 February 2009.

(a) Distribution of equity securities

(i) Ordinary share capital

- 104,707,809 fully paid ordinary shares are held by 747 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

- 1,650,000 options are held by 2 individual option holders. Options do not carry a vote.

The number of share holders, by size of holding are:

	Fully paid ordinary shares
1-1,000	302
1,001-5,000	27
5,001-10,000	86
10,001-100,000	199
100,001 - and over	133
	<hr/> 747 <hr/>

(b) Twenty largest holders of quoted equity securities

Ordinary Shareholder	Fully paid	
	Number	Percentage
Sorrel Enterprises Limited	11,309,885	10.80
Blackmort Nominees Pty Ltd	7,000,000	6.69
Sunshore Holdings Pty Ltd	6,558,250	6.26
Mr Earl Evans	6,000,000	5.73
Berpaid Pty Ltd	5,920,000	5.65
HSBC Custody Nominees	3,931,043	3.75
Removale Pty Ltd	3,910,744	3.73
Dr Salim Cassim	3,000,000	2.87
Fairy Security Pty Ltd	2,445,000	2.34
Chamen & Co Pty Ltd	2,425,000	2.32
Mrs Maria Fyfe	1,889,841	1.80
Indi Holdings Pty Ltd	1,716,890	1.64
Mr Richard David Rossiter	1,500,000	1.43
Trinaway Pty Limited	1,250,000	1.19
National Nominees Limited	1,218,500	1.16
Aquarius Investments Corp Pty	1,000,000	0.96
Rogue Investments Pty Ltd	1,000,000	0.96
Sognare Investments Pty Ltd	1,000,000	0.96
Wil Evans Design Pty Ltd	1,000,000	0.96
Sudell Pty Ltd	925,000	0.88
	<hr/> 65,000,153 <hr/>	<hr/> 62.08 <hr/>

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ASX additional information

(c) Voting Rights

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.