

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED



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

FINANCIAL REPORT

31 December 2009

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

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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

Neale Fong – Non-executive Director (appointed 10 December 2009)

Clive Sinclair-Poulton – Non-executive Director (resigned 10 December 2009)

Company Secretary

Theo Renard

Registered and Principal Office

Suite 1308, 3 Spring Street

Sydney NSW 2000 AUSTRALIA

Telephone (+61 2) 8249 4542

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Website www.msh.net.au

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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

HLB Mann Judd

Level 19

207 Kent Street

Sydney NSW 2000 AUSTRALIA

Telephone (+61 2) 9020 4000

Facsimile (+61 2) 9020 4190

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

ABN 98 008 124 025

Chairman's Letter/MD's Letter

Dear Shareholders,

It is with pleasure that your Board of Directors present the Morning Star Holdings (Australia) Limited ("the Company") Annual Report.

The Company has made significant progress with its strategy of expanding into quality resource projects and specifically into the robust South African platinum sector in 2009. An interest in three tenements on the Eastern Limb of the platinum-bearing Bushveld Igneous Complex were acquired with shareholder approval through the Realm Resources Limited transaction. These tenements, in order of potential are, Kliprivier, Ghost Mountain and Tinderbox.

The Company's platinum strategy is to target near surface resources with open pit or shallow mining potential. In addition, a low capital and operating cost approach is being adopted to ensure effective and rapid progression to cash flow. Where possible, the Company will seek to maximise revenue through the extraction and sale of both platinum group metals ("PGM") and by-product chromite.

The Kliprivier PGM project is being targeted as a priority given the previously defined UG2 resource and the 6km of surface outcrop potential. Geological work aimed at better defining the target zone and preparing for a more intensive exploration programme is underway while regulatory approvals and the acquisition of Masedi Platinum (Proprietary) Limited and Nkwe Platinum (Scarlet) (Proprietary) Limited are being finalised.

The aluminium waste toll treatment business returned a net profit of A\$597,344 for the financial year ending 2009 (loss of A\$917,771 in 2008) as a result of a solid operating performance, cost controls and the negotiation of a new interim commercial arrangement with its major customer, Hulamin. This together with our cash position of A\$6.3m on 31 December 2009 (vs. A\$6.6m in 2008) provides sufficient funding for our planned exploration activities in the short to medium term.

The Company is focussing on growing the PGM business and continues to seek complementary value-adding opportunities via utilising its extensive network and knowledge in the area.

On behalf of the Company I would like to thank all Shareholders for their interest and ongoing support, I look forward to the release of additional news and developments in the near future.

Yours faithfully

The image shows two handwritten signatures in black ink. The signature on the left is 'G. Button' and the signature on the right is 'Richard Rossiter'.

Grant Button
Chairman

Richard Rossiter
Managing Director

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report

Your directors submit their report on the consolidated entity (also referred to as the Group) consisting of Morning Star Holdings (Australia) Limited and entities it controlled at the end of, or during the year ended 31 December 2009.

Directors and Company Secretary

The names and qualifications of the Directors and Company Secretary of the Company holding office during the financial year and up to the date of this report are:

Grant Button *BBus, CPA. Age 48*
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 Sylvania Resources Limited as well as Chairman and Non-executive Director of Alamar Resources Limited (all ASX listed). He was a Director of Washington Resources Limited until his resignation on 01 December 2008. Mr Button has not been a Director of any other listed companies in the past three years to 31 December 2009.

Richard Rossiter *BSc (Hons), MSc. Age 52*
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 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 (ASX listed) and has not been a Director of any other listed companies in the past three years to 31 December 2009.

Theo Renard *CA(SA), CSA. Age 47*
Executive Director and Company Secretary

Mr Renard is a Chartered Accountant and has over 20 years experience in credit and relationship banking in commercial and investment banking with Nedcor in South Africa and Asia and ABN AMRO in Australia and Asia. He spent over two years as CFO and Company Secretary with a retail group with retail and manufacturing operations in Asia and the Subcontinent, during that time he was a Director of several of the South African listed companies and affiliates. He has not been a Director of any other listed companies in Australia in the past three years to 31 December 2009.

Dr Neale Fong *MBBS Dip CS MTS MBA FAICD AFACHSE. Age 50 (approved 10 December 2009)*
Non-Executive Director

Dr Fong has extensive experience in management of large and complex organisations, especially in the health and human services field. He is a qualified medical practitioner holding Bachelors Degrees in Medicine and Surgery from the University of Western Australia as well as a Masters in Business Administration from the UWA Business School. He also holds a Masters Degree in Theological studies from Regent College, University of British Columbia.

Dr Fong is a Fellow of the Australian Institute of Company Directors and is an experienced chairman and director. He has been a director for 11 years and chairman for 7 years of the West Australian Football Commission, a position he still holds. He is also a non-executive director of Chrysalis Resources Limited (ASX listed), Realm Resources Limited, The Bethanie Group Ltd, Bethesda Hospital Inc and Prime Health Ltd. He has held positions as the Director General of the Department of Health, and also held the position as CEO of St John of God Hospital, Subiaco.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Dr Fong also provides consultancy services to a range of different industries and companies.

He has not been a director of any other listed companies in the past three year to 31 December 2009.

In addition, Mr Clive Sinclair-Poulton held office as Director during the financial year as detailed below.

Clive Sinclair-Poulton Age 54 (resigned 10 December 2009)
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.

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-09	Received as Remuneration	On Exercise of Options	Net Change Other	Balance 31-Dec-09
Grant Button	750,000	500,000	-	99,000 (i)	1,349,000
Richard Rossiter	1,500,000	1,000,000	-	-	2,500,000
Theo Renard	-	1,000,000	-	-	1,000,000
Neale Fong	-	750,000	-	434,696	1,184,696
	2,250,000	3,250,000	-	533,696	6,033,696

(i) Indirect holding

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 nil.

Share options

Unissued shares

As at the date of this report, there were 2,500,000 unissued ordinary shares under options (2,500,000 at the reporting date).

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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Review of results and operations

The Morning Star Holdings (Australia) Limited ("Morning Star" or "the Company") Group has recorded revenue from ordinary activities of A\$5,623,973 (A\$3,040,090 in 2008) and a net loss for the year ended 31 December 2009 of A\$9,016,361 versus a loss of A\$3,763,949 in 2008. The 2009 result was affected by:

- Morning Star's acquisition of 100% of Realm Resources Limited ("Realm"), 47.5% of Masedi Platinum (Proprietary) Limited ("Masedi") and 49.99 % of Nkwe Platinum (Scarlet) (Proprietary) Limited ("NPS"). In line with current accounting standards the assets and liabilities acquired were measured at fair value on acquisition and, as a result, have been re-valued and an impairment charge of A\$7,901,075 has been taken on the Realm investment.
- Operational and financial performance improved at the operating subsidiary Alumicor SA Holdings (Pty) Ltd ("Alumicor"), resulting in a net profit of A\$597,344 (loss of A\$917,771 in 2008).

Platinum Group Metals

The Company has made significant progress with its strategy of expanding into quality resource sector projects and specifically into platinum group metals ("PGM") during 2009. Shareholder approval for the acquisition of Realm Resources Limited ("Realm") on 24th September 2009 exposes the Company to the robust South African platinum industry and specifically to three prospective tenements situated in the Eastern Limb of the PGM bearing Bushveld Igneous Complex.

Your directors believe that there is a significant opportunity for investment in PGM resources. The PGM sector has an attractive industry structure with:-

- Concentrated supply - South Africa has over 85% of global platinum resources and the top 3 companies supply over 75% of annual production.
- Solid demand growth – which is showing signs of recovery as the auto sector recovers from the global financial crisis (PGM's are primarily used in the manufacture of auto catalysts for pollution control in vehicles). Additional demand from the jewellery (China), fabrication and investment sectors continue to provide support.
- Supply side constraints – increasing costs, mining depths, skills shortages, labour unrest and power and water shortages are contributing to under investment in capacity and tighter market balances in the near term.

Realm Resources acquisition

Stage 1 of the transaction was completed in November 2009 with the issue of 49.9 million of Morning Star's shares. The Company now owns 100% of Realm Resources Limited ("Realm"), 47.5% of Masedi Platinum (Proprietary) Limited ("Masedi") and 49.9% of Nkwe Platinum (Scarlet) (Proprietary) Limited ("NPS"). Stage 2, which would result in the acquisition of the remaining shares (but only up to 74% of the total) in Masedi and NPS, is dependent upon Ministerial consent for the transfer of the assets (Section 11 application) to Realm. South African regulations require ministerial approval for a Section 11 transfer. If Ministerial approval is received, Realm will achieve 74% ownership of Masedi and NPS, the balance being held by a local Black Economic Empowerment ("BEE") partner. Management expects completion to occur in Q2 2010 with the issue of a further 50.1 million shares bringing the total shares on issue to 211 million.

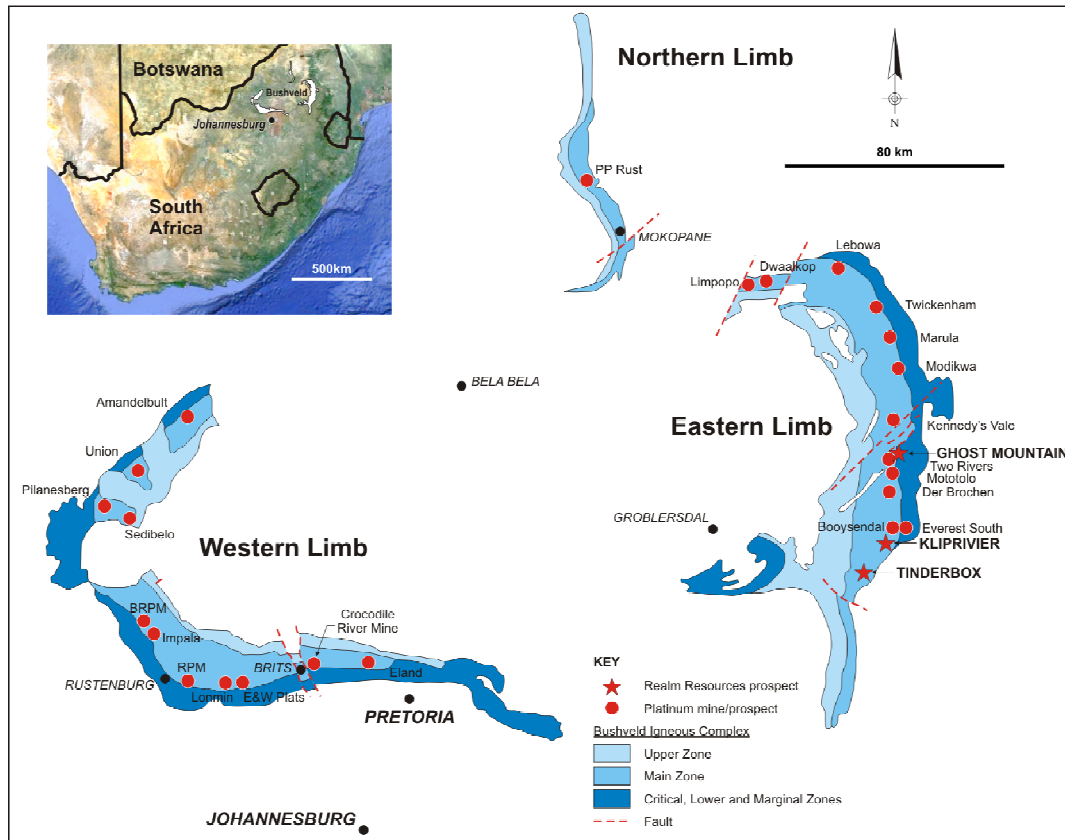
The assets owned by Masedi and NPS all occur within the Bushveld Igneous Complex ("**BIC**"), the geological feature that hosts more than 85% of the world's platinum resources. Specifically the tenements occur on the southern portion of the Eastern Limb of the complex, some 230km north-east from Johannesburg. The tenements from north to south are Ghost Mountain, Kliprivier and Tinderbox. The Kliprivier prospect is considered the most prospective and occurs immediately to the south of Aquarius Platinum's Everest South mine and Northam's recently announced Booyseindal project.

The tenements are accessible via sealed roads, and are well placed relative to regional power and water infrastructure.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Figure 1 Location of the Bushveld Igneous Complex and Realm Resources' Tenements



A brief description of the portfolio ranked in order of priority is given below:-

Kliprivier Prospect

- PGM resource - inferred UG2 resource of 109.6 Mt @ 2.3 g/t (3PGE+Au) containing 7.6 Moz 3PGE+Au (undiscounted) or 6.46Moz applying a 15% discount factor from surface over a 6km strike length on the 3,300ha permitted share of Kliprivier (based on information compiled by Mr Allen Maynard – Member of the Australian Institute of Mining and Metallurgy (AusIMM)).
- PGM targets - a lower chromitite band with potential PGM mineralisation (Source Nkwe – Annual Financial Statements 2008). This target mineralisation is conceptual in nature and future exploration may or may not define this in whole or in part.

Ghost Mountain Prospect

- PGM targets - the UG1, UG2 seams and Merensky Reef all outcrop on the southern part of the farm Tweefontein and require further work to establish the extent of the deposits. The eastern block of farms hold exploration potential for the discovery of outliers of the PGM reefs as well as of Platreef - Uitkomst type mineralisation.

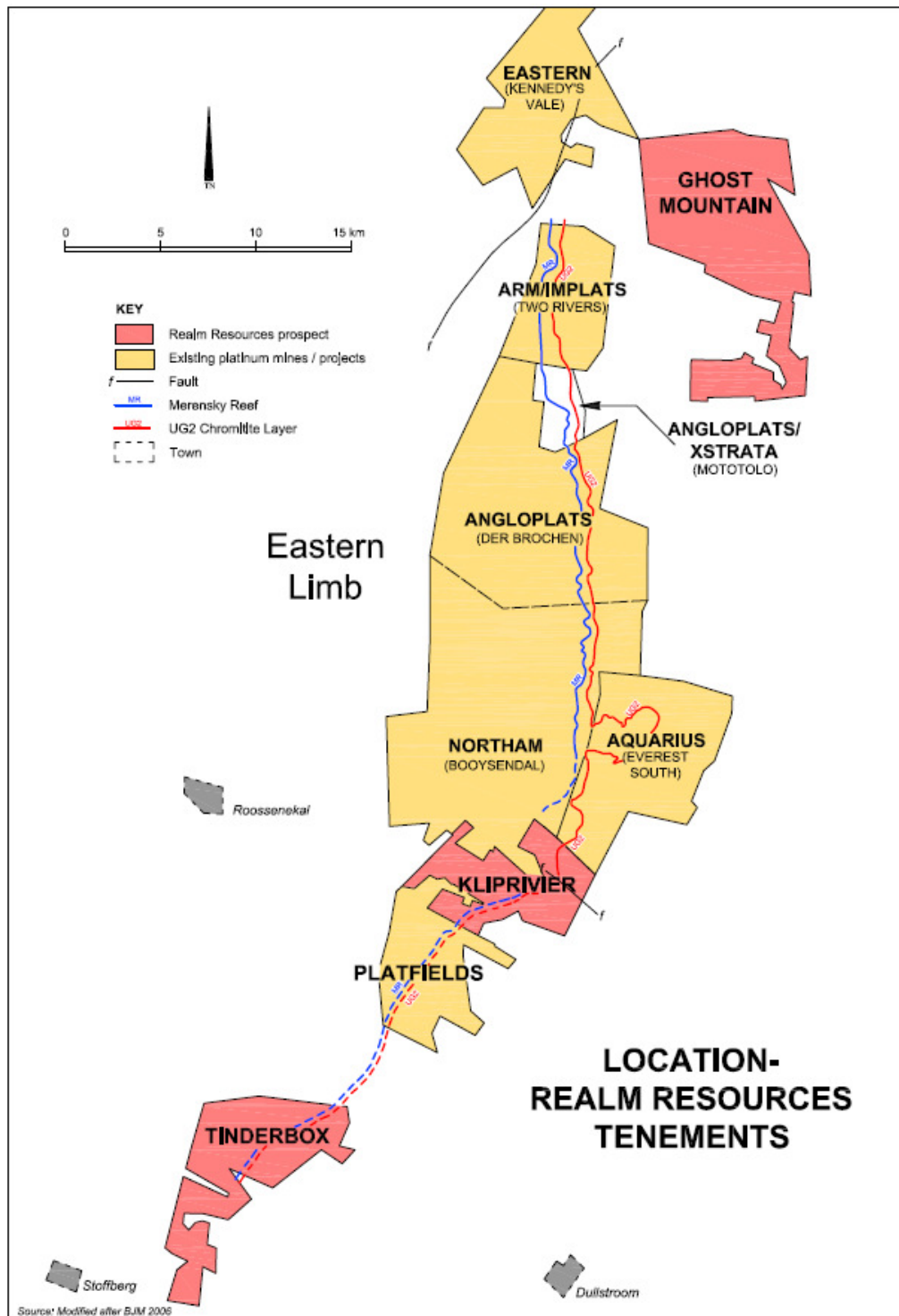
Tinderbox Prospect

- PGM targets - early stage exploration prospect. There is evidence to suggest that marginal style Critical Zone norite which could host UG2 mineralisation may be present on the prospect.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Figure 2 Realm Resources' Tenements in relation to Northam's Booyesendal Project, Aquarius' Everest South Mine and the Platfield Project



MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Focus on Kliprivier

Masedi and NPS have decided to initially focus on progressing the Kliprivier prospect as it has the greatest potential for the discovery of economically viable mineralisation in the near term. The prospect is immediately south of Aquarius Platinum's Everest South mine and up dip of Northam's Booyssendal project. Thirty boreholes have been drilled on the property since 1969 resulting in the definition of an inferred UG2 resource of 7.6 Moz (3PGE+Au) on the permitted share of Kliprivier. The potential of the other tenements, Ghost Mountain and Tinderbox, will also be assessed after the initial review of the priority target.

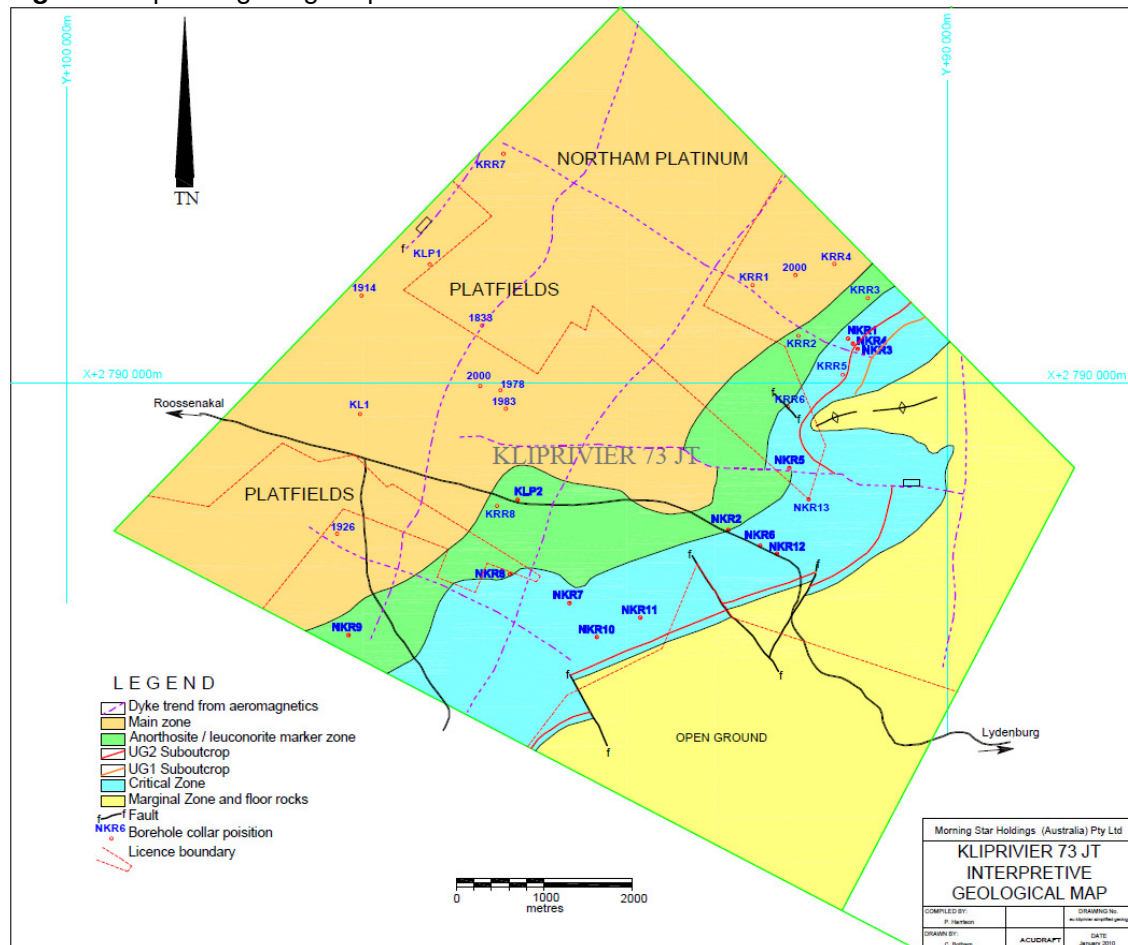
The Company has consequently appointed a Consulting Geologist (Peter Harrison MSc Pri.Sci.Nat.) to review and update all existing geological data on Kliprivier to ready the project for the next stage of exploration which will be aimed at defining an economic resource that can be rapidly brought to account. The following work has been undertaken (note: none of the activities listed below took the form of exploration work):

- All geological data has been collated, re-examined and reinterpreted. Selected boreholes have been re-logged to assist with the reinterpretation of geological sections and to better understand the distribution of the PGM mineralisation in and around the UG2 Reef horizon. Geological maps and sections have been redrawn and the forecast position of the outcrop of the UG2 Reef target has been refined.
- An initial environmental due diligence and risk assessment has been completed.
- Interviews to appoint a full service geological consultant to oversee the more detailed next phase of exploration.

Previous exploration work on the Kliprivier prospect has been carried out by at least five companies since 1969 with 30 boreholes drilled, some to in excess of 1,000m deep. Progress was previously hampered due to the fragmented nature of the ground holdings, with the focus aimed at determining the viability of a higher grade and deeper level mining project.

Director's report (continued)

Figure 3 Kliprivier geological plan



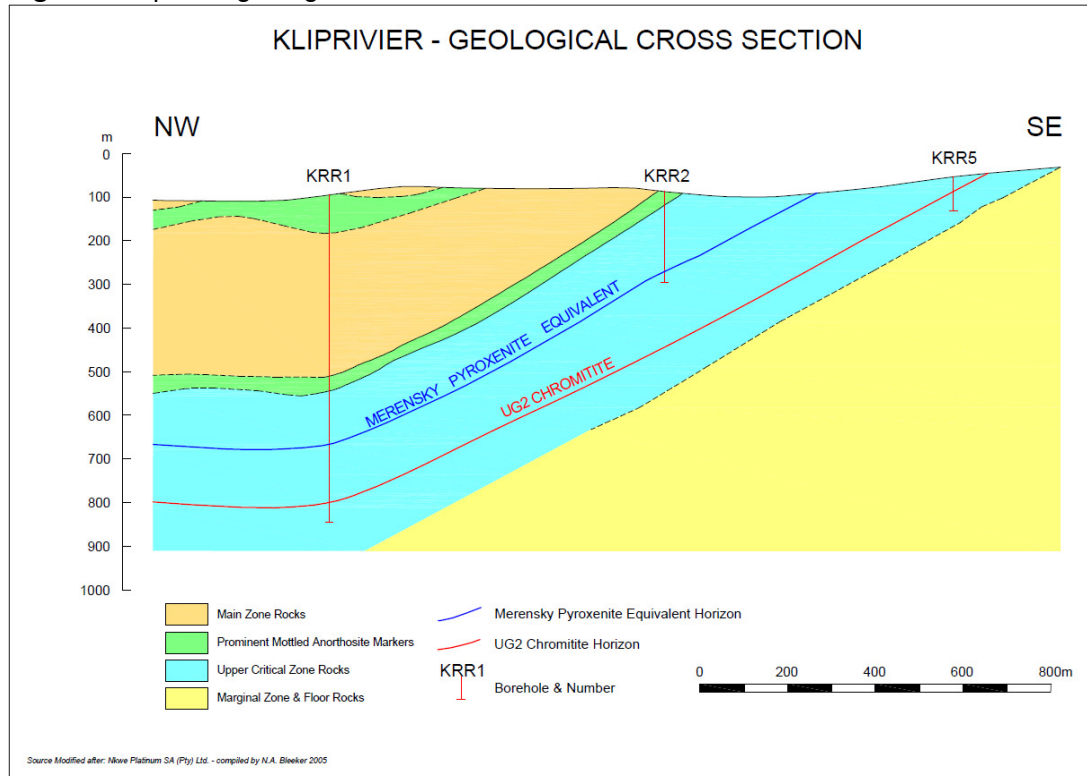
Low cost open pit mining approach

Masedi and NPS will focus on the near surface UG2 Reef (less than 200m depth) which is amenable to lower cost open pit or shallow underground mining. The initial review of the data has indicated that the Kliprivier prospect might best be exploited via open pit methods with ore treated at a nearby low capital cost and low operating cost plant. Additionally, Masedi and NPS are exploring ways to enhance returns via the potential extraction and sale of by-product chromite.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Figure 4 Kliprivier geological cross-section, Northernmost boreholes KRR1 - KRR5

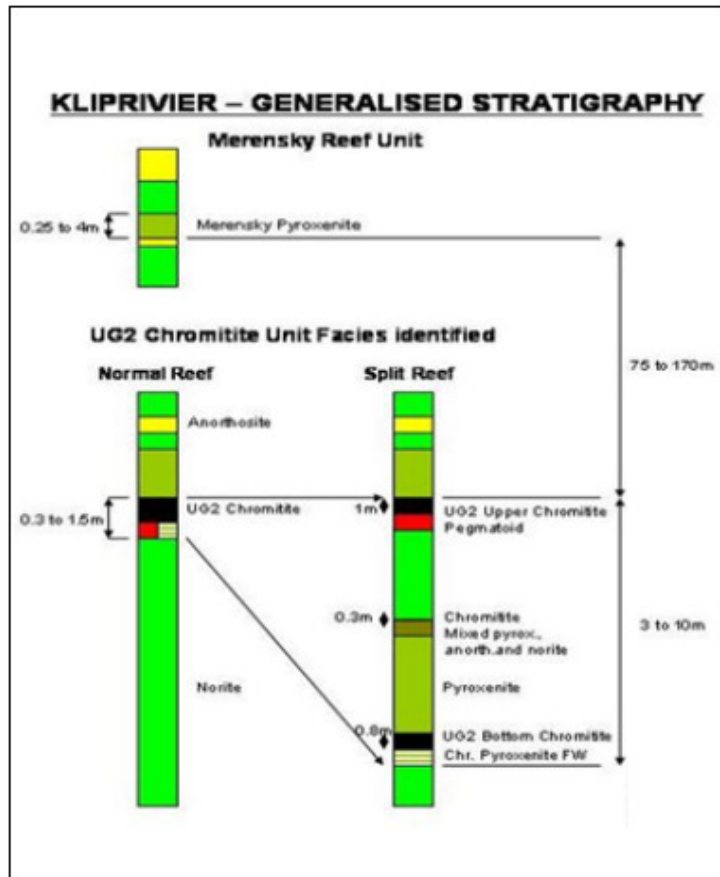


In addition, examination of the bore cores has confirmed the presence of a the more typical single UG2 reef horizon as well as a wider reef or "split reef facies" where the UG2 mineralisation occurs in two horizons separated by 3 to 10 metres of host rock. This will be further investigated in the next round of exploration.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Figure 5 Kliprivier - Generalised stratigraphy



Kliprivier Work Programme Next Steps

- Subject to regulatory approvals and consents; select and appoint a full service geological consultant to assist with the design and implementation of a drilling and sampling programme aimed at targeting shallow resources that are amenable to lower cost open pit or shallow underground mining. This will include preliminary resource and economic modelling.
- Masedi and NPS are working with their advisors to finalise the details, timing and costs associated with the more capital intensive exploration and drilling stage of the programme. A preliminary budget and timeline has been drawn up and this information will be advised when it has been agreed with Masedi and NPS and their advisors.

Aluminium

Alumicor SA (“**Alumicor**”) treats aluminium dross for Hulamin Limited (“**Hulamin**”) and returns aluminium to Hulamin on an annually negotiated toll conversion fee basis.

Health and Safety

The disabling injury frequency rate (DIFR) for the year has improved to 9.5. Health and safety remains a key priority and training is continually implemented and revised.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Smelting and recovery performance comparison

Alumicor	Q1 2009	Q2 2009	Q3 2009	Q4 2009	% change Q3 2009
Tons smelted	3,695	4,280	3,639	3,977	9%
Average recovery %	68%	64%	67%	62%	(8)%

Operations

Plant operations showed a marked improvement in 2009. Following the improvement in global economic conditions Hualamin increased its own plant throughput and increased dross deliveries to Alumicor during 2009.

Financial

An interim commercial arrangement has been implemented with Hualamin. This together with a solid operating performance and cost controls has resulted in a positive net profit of A\$597,344 for the financial year ending 2009. Negotiations continue to formalise the interim commercial arrangement.

An application to import aluminium dross into South Africa for testing is being prepared. Results from this testing will be used in tendering to process dross for Australian smelters.

Subsequent events

As mentioned previously, phase 2 of the Realm transaction is underway and is expected to be completed in the first half of 2010, subject to ministerial approval.

Except for the above, no matter or circumstance has arisen since 31 December 2009 that has significantly affected or may significantly affect:

- a) the Group's operations in future financial years, or
- b) the results of those operations in future financial years, or
- c) the Group's state of affairs in future financial years.

Corporate

During the year under review the following capital restructuring occurred:

	No. of shares
Ordinary Shares on issue at beginning of the year	104,707,809
Shares issued as consideration for Realm	34,775,652
Shares issued as consideration for Masedi and NPS	15,214,348
Share plan shares issued	6,500,000
Ordinary shares in issue at end of year	<u>161,197,809</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:

	Board Meetings		Audit Committee Meetings	
	Number of Meetings Eligible to Attend	Number of Meetings Attended	Number of Meetings Eligible to Attend	Number of Meetings Attended
Grant Button	9	9	2	2
Richard Rossiter	9	9	2	2
Theo Renard	9	9	2	2
Neale Fong (appointed 10 December 2009)	3	3	-	-
Clive Sinclair-Poulton (resigned 10 December 2009)	6	6	1	1

Principal activities

The principal activity of the Company during the financial year was the acquisition of Realm , the acquisition of 47.5% of Masedi and the acquisition of 49.9% of NPS. The principal activity of Masedi and NPS during the financial year was the holding of platinum resources tenements. Concurrently the Board of Morning Star continued to oversee operations at Alumicor Holdings SA Pty Ltd and continued to pursue new opportunities in the resource sector with the view of maximising shareholder value. The principal activity of Alumicor is the reprocessing of aluminium waste.

Financial results

The consolidated net loss for the year ended 31 December 2009 was a loss of \$9,016,361 (2008: Net loss of \$3,763,949).

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 Realm Resources Limited and the investments in Masedi and NPS during 2009, squarely places Morning Star in the Resources sector as a holder of significant platinum reserves.

Significant events after balance date

Management is focusing on completing the Realm transaction, being the acquisition of the remaining interests in Masedi and NPS, subject to ministerial consent (section 11 application), as mentioned previously. 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". Future information on likely developments in the operations of the Group and the expected results of operations have not been included in this financial report because the directors believe it would be likely to result in unreasonable prejudice to the group.

Environmental regulation and performance

The Group is subject to significant environmental regulations in respect of its platinum tenements and Alumicor business in South Africa. The Group is in compliance with the relevant environmental regulations. The most recent report being 9 February 2010 for the year ending 31 December 2009.

Indemnification and insurance of directors

During or since the financial year, the company has paid premiums in respect of a contract insuring all the directors of the Group against legal costs incurred in defending proceedings for conduct other than:

- a) a wilful breach of duty.
- b) A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$17,664.

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 23.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (HLB Mann Judd) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year, no fees were paid or payable for non-audit services provided by the auditor of the parent entity or its related practices. Subsequent to year end the auditor provided tax compliance services for a fee of \$13,500. During the year the company used BDO South Africa Incorporated to provide audit services to its subsidiary, Alumicor SA Holdings Proprietary Limited and its controlled entities. No non-audit fees were to BDO South Africa Incorporated.

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 Group 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 Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, and includes executives of the Group.

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
Neale Fong	- Non-executive Director (<i>appointed 10 December 2009</i>)
Clive Sinclair-Poulton	- Non-executive Director (<i>resigned 10 December 2009</i>)

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

Theo Renard	- Company Secretary
Ryan McConnachie	- General Manager, Alumicor SA Holdings (Pty) Limited

Remuneration Philosophy

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

To this end, the Group 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 Group. At this time, shares and options issued do not have performance criteria attached.

The Group 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 recognises 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 Directors and Senior Management Remuneration

Objective

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

- reward executives for Group, 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.

Principles used to determine the nature and amount of remuneration

The key management personnel of the Group are those directors of the Company and those executives that report directly to the Managing Director. Details of directors and key personnel contracts are as follows:

Name & Designation	Duration of Contract (in years)	Period of Notice to Terminate (in months)	Termination Payments Under Contract
Directors			
R D Rossiter – Managing Director	2	Nil	(i)
T N Renard – Executive Director	2	Nil	(i)
Key management personnel			
R McConnachie – General Manager	Indefinite	6	None

- (i) Termination without cause by the Company giving the other party notice in writing. If notice is given by the Company it agrees to pay the greater of the balance of the consultancy fee or twelve months consultancy fee. The consultant may terminate upon giving the company notice in writing for 3 months.

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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Remuneration of key management personnel of the Company

Table 1: Remuneration for the year ended 31 December 2009

	Directors fees \$	Short-term Salary and Consulting fees \$	Long-term Superannuation contribution \$	Share based payment Shares and options \$	Total \$
Non – executive directors					
Grant Button	36,000	-	3,240	67,921	107,161
Neale Fong (i)	1,355	-	122	53,484	54,961
Clive Sinclair-Poulton (ii)	23,995	-	-	11,926	35,921
Sub-total non-executive directors	61,350	-	3,362	133,331	198,043
Executive directors					
Richard Rossiter	24,000	81,125	2,160	135,842	243,127
Theo Renard	24,000	250,000	2,160	47,703	323,863
Sub – total executive directors	48,000	331,125	4,320	183,545	566,990
General Management					
Ryan McConnachie	-	138,729	-	77,377	216,106
Totals	109,350	469,854	7,682	394,253	981,139

(i) appointed on 10 December 2009

(ii) resigned on 10 December 2009

Table 2: 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
General Management					
Ryan McConnachie	-	137,258	-	-	137,258
Totals	156,667	411,360	6,530	231,230	805,787

(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)

No remuneration (including shares or options issued) is performance related, but is structured to increase goal congruence between executives, directors and shareholders.

Table 3: Compensation shares: Granted and vested during the year ended 31 December 2009

31 December 2009	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant Date	Fair Value per share at grant date \$ (note 23)	Exercise price per share \$ (note 23)	Expiry Date	First Exercise Date	Last Exercise Date	No.	%
Directors									
Clive Sinclair-Poulton	250,000	17 June 2009	0.085	0.15	17 June 2013	17 June 2011	17 June 2013	250,000	100%
Theo Renard	1,000,000	17 June 2009	0.085	0.15	17 June 2013	17 June 2011	17 June 2013	1,000,000	100%
Grant Button	500,000	28 September 2009	0.20	0.20	28 September 2013	28 September 2011	28 September 2013	500,000	100%
Richard Rossiter	1,000,000	28 September 2009	0.20	0.20	28 September 2013	28 September 2011	28 September 2013	1,000,000	100%
Neale Fong	750,000	17 November 2009	0.14	0.20	17 November 2013	17 November 2011	17 November 2013	750,000	100%
Total	3,500,000							5,750,000	100%

Table 4: Compensation options: Granted and vested during the year ended 31 December 2009

31 December 2009	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant date	Fair Value per option at grant date \$ (note 23)	Exercise price per option \$ (note 23)	Expiry date	First exercise date	Last exercise date	No.	%
Management									
Ryan McConnachie)	1,000,000	30 June 2009	0.19	0.15	30 June 2010	30 June 2009	30 June 2010	1,000,000	100%
Total	1,000,000							1,000,000	100%

Table 5: Compensation shares: Granted and vested during the year ended 31 December 2008

31 December 2008	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant Date	Fair Value per share at grant date \$ (note 23)	Exercise price per share \$ (note 23)	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	2,250,000							2,250,000	100%

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Table 6: Compensation options: Granted and vested during the year ended 31 December 2008

31 December 2008	Granted		Terms & Conditions for each Grant					Vested	
	No.	Grant date	Fair Value per option at grant date \$ (note 23)	Exercise price per option \$ (note 23)	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 7: Shares granted as part of remuneration during the year ended 31 December 2009

	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	500,000	67,921	-	-	63.4
Richard Rossiter	1,000,000	135,842	-	-	55.9
Clive Sinclair-Poulton	250,000	11,926	-	-	33.2
Theo Renard	1,000,000	47,403	-	-	14.7
Neale Fong	750,000	53,484	-	-	97.3

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

Table 8: Shares granted as part of remuneration during the year ended 31 December 2008

	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	1,500,000	267,500	-	-	74.7

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

Table 9: Options granted as part of remuneration for the year ended 31 December 2009

	No. of options granted during the year \$	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
Ryan McConnachie	1,000,000	77,377	-	-	77,377	35.8

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Director's report (continued)

Remuneration report (audited) (continued)

Table 10: Options granted as part of remuneration during the year ended 31 December 2008

	No. of options granted during the year \$	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)	1,500,000	267,000	-	27,900	294,900	18.5
Bruce Burrell (ii)	150,000	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 year.

Signed in accordance with a resolution of the directors.



Richard Rossiter
Managing Director

31 March 2010

AUDITOR'S INDEPENDENCE DECLARATION**To the Directors of Morning Star Holdings (Australia) Limited:**

As lead auditor for the audit of Morning Star Holdings (Australia) Limited for the year ended 31 December 2010, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor's independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Morning Star Holdings (Australia) Limited and the entities it controlled during the year.



A G Smith
Partner

Sydney
31 March 2010

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. 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 2009 financial year ("Reporting Period") the Company has followed each of the Principles & Recommendations other than in relation to the matters specified below.

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: 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.

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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Corporate governance statement (continued)

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 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 Mr. Grant Button and Dr. Neale Fong.

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

Statements of financial position As at 31 December 2009

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
ASSETS					
Current assets					
Cash and cash equivalents	9	6,353,631	6,583,519	5,680,397	6,345,968
Trade and other receivables	10	513,324	885,125	-	-
Inventories	11	14,885	103,820	-	-
Other current assets		43,925	38,431	35,515	38,431
Total current assets		6,925,765	7,610,895	5,715,912	6,384,399
Non-current assets					
Loan to subsidiary	24d	-	-	2,240,462	-
Investments accounted for the using the equity method	13a	2,206,080	-	-	-
Investment in subsidiaries	24c	-	-	1,985,157	1,887,832
Property, plant and equipment	14	1,473,107	1,561,155	4,525	3,908
Deferred tax assets	7c	155,331	141,245	-	141,245
Total non-current assets		3,834,518	1,702,400	4,230,144	2,032,985
TOTAL ASSETS		10,760,283	9,313,295	9,946,056	8,417,384
LIABILITIES					
Current liabilities					
Trade and other payables	16	458,216	1,041,065	66,277	84,615
Current tax liabilities		108,405	-	36,327	-
Interest-bearing loans & borrowings	17	64,105	99,062	-	-
Total current liabilities		630,726	1,140,127	102,604	84,615
Non-current liabilities					
Interest-bearing loans & borrowings	17	14,761	63,350	-	-
Deferred tax liabilities	7c	76,930	39,898	76,931	39,898
Total non-current liabilities		91,691	103,248	76,931	39,898
TOTAL LIABILITIES		722,417	1,243,375	179,535	124,513
NET ASSETS		10,037,866	8,069,920	9,766,521	8,292,871
EQUITY					
Equity attributable to equity holders of the parent					
Contributed equity	18	20,821,894	10,022,465	20,821,894	10,022,465
Retained earnings	19a	(11,054,086)	(2,093,255)	(11,248,811)	(1,785,124)
Reserves	19b	270,058	140,710	193,439	55,530
Parent interests		10,037,866	8,069,920	9,766,522	8,292,871
Minority interests		-	-	-	-
TOTAL EQUITY		10,037,866	8,069,920	9,766,522	8,292,871

The above statements of financial position should be read in conjunction with the accompanying notes.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Statements of comprehensive income For the year ended 31 December 2009

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Continuing Operations					
Sale of goods		5,193,334	2,450,319	-	-
Interest Income		419,152	589,591	407,491	589,324
Other revenue		11,487	180	-	-
Revenue		<u>5,623,973</u>	<u>3,040,090</u>	<u>407,491</u>	<u>589,324</u>
Cost of sales		(3,409,360)	(2,179,659)	-	-
Gross profit		<u>2,214,613</u>	<u>860,431</u>	<u>407,491</u>	<u>589,324</u>
Other income		-	52,508	-	55,121
Share maintenance expenses		(59,661)	(86,504)	(59,661)	(86,504)
Occupancy Expenses		(58,064)	(60,851)	(15,773)	(39,991)
Share based compensation expense		(788,388)	(231,230)	(788,388)	(231,230)
Administrative expenses	6	(8,774,005)	(3,509,755)	(8,114,233)	(3,189,359)
Other expenses	6	(1,376,687)	(864,988)	(734,049)	(626,550)
Finance costs		(14,092)	(23,374)	-	-
(Loss)/Profit from continuing operations before income tax		<u>(8,856,284)</u>	<u>(3,863,763)</u>	<u>(9,304,613)</u>	<u>(3,529,189)</u>
Income tax benefit/(expense)	7	(160,077)	73,371	(214,604)	73,371
Net (Loss)/profit for the period		<u>(9,016,361)</u>	<u>(3,790,392)</u>	<u>(9,519,217)</u>	<u>(3,455,818)</u>
Attributable to:					
Minority interest		-	26,443	-	-
Members of the parent		<u>(9,016,361)</u>	<u>(3,763,949)</u>	<u>(9,519,217)</u>	<u>(3,455,818)</u>
Other comprehensive income					
Exchange differences on translation of foreign operations		(8,561)	85,180	-	-
Total comprehensive income(loss) for the period		<u>(9,024,922)</u>	<u>(3,678,769)</u>	<u>(9,519,217)</u>	<u>(3,455,818)</u>
Profit for the period is attributable to:					
Non-controlling interest		-	-	-	-
Owners of the parent		<u>(9,016,361)</u>	<u>(3,763,949)</u>	<u>(9,519,217)</u>	<u>(3,455,818)</u>
Total comprehensive income for the period is attributable to:					
Non-controlling interest		-	-	-	-
Owners of the parent		<u>(9,024,922)</u>	<u>(3,678,769)</u>	<u>(9,519,217)</u>	<u>(3,455,818)</u>
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:	8				
Basic earnings (loss) per share		(5.73)	(3.93)	-	-
Diluted earnings (loss) per share		(5.73)	(3.93)	-	-

The above statements of comprehensive income 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 2009

	Ordinary shares \$	Employee equity benefits reserve \$	Consolidated Foreign currency translation reserve \$	Retained earnings \$	Owners of the parent \$	Non- controlling interest \$	Total \$
Balance as at 1 January 2008	7,584,787	30,600	-	1,640,094	9,255,481	-	9,255,481
(Loss) for the year	-	-		(3,763,949)	(3,763,949)	(26,443)	(3,790,392)
Other comprehensive income	-	-	85,180	-	85,180	-	85,180
Total comprehensive income for the year	-	-	85,180	(3,763,949)	(3,678,769)	(26,443)	3,705,212
Transactions with owners in their capacity as owners:							
Shares issued during the year	2,261,977	-	-	-	2,261,977	-	2,261,977
Share-based payment	175,701	55,530	-	-	231,231	-	231,231
Cancellation of share-based payment	-	(30,600)	-	30,600	-	-	-
Non-controlling interest acquired	-	-	-	-	-	26,443	26,443
Balance as at 31 December 2008	10,022,465	55,530	85,180	(2,093,255)	8,069,920	-	8,069,920
(Loss) for the year	-	-	-	(9,016,361)	(9,016,361)	-	(9,016,361)
Other comprehensive income	-	-	(8,561)	-	(8,561)	-	(8,561)
Total comprehensive income for the year	-	-	(8,561)	(9,016,361)	(9,024,922)	-	(9,024,922)
Transactions with owners in their capacity as owners:							
Shares issued during the year	10,204,480	-	-		10,204,480	-	10,204,480
Share-based payment	594,949	193,439	-	-	788,388	-	788,388
Cancellation of share-based payment	-	(55,530)	-	55,530	-	-	-
Balance as at 31 December 2009	20,821,894	193,439	76,619	(11,054,086)	10,037,866	-	10,037,866

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 2009

	Ordinary shares \$	Company Employee equity benefits reserve \$	Retained earnings \$	Total \$
Balance as at 1 January 2008	7,584,787	30,600	1,640,094	9,255,481
(Loss) for the period	-	-	(3,455,818)	(3,455,818)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(3,455,818)	(3,455,818)
Transactions with owners in their capacity as owners:				
Shares issued during the year	2,261,977	-	-	2,261,977
Share-based payment	175,701	55,530		231,231
Cancellation of share-based payment	-	(30,600)	30,600	-
Balance as at 31 December 2008	10,022,465	55,530	(1,785,124)	8,292,871
(Loss) for the year	-	-	(9,519,217)	(9,519,217)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(9,519,217)	(9,519,217)
Transactions with owners in their capacity as owners:				
Shares issued during the year	10,204,480	-	-	10,204,480
Share-based payment	594,949	193,439	-	788,388
Cancellation of share-based payment	-	(55,530)	55,530	-
Balance as at 31 December 2009	20,821,894	193,439	(11,248,811)	9,766,522

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Statements of cash flows For the year ended 31 December 2009

	Notes	Consolidated		Company	
		2009	2008	2009	2008
		\$	\$	\$	\$
Cash flows from operating activities					
Receipts from customers		5,672,749	2,301,241	-	-
Payments to suppliers and employees		(6,324,161)	(3,124,905)	(895,605)	(814,199)
Interest received		270,584	511,717	258,922	511,450
Finance charges		(14,092)	(23,374)	-	-
Income tax (payments) receipts		154,837	(6,578)	9,606	(6,578)
Net cash flows (used in)/from operating activities	20	(240,083)	(341,899)	(627,077)	(309,327)
Cash flows from investing activities					
Purchase of property, plant and equipment		(164,773)	(61,746)	(4,114)	(4,367)
Costs incurred on acquisition of subsidiary/investment		-	(290,267)	-	(290,267)
Acquisition of subsidiary - net cash acquired	24	253,644	(803,251)	-	(1,161,752)
Net cash flows used in investing activities		88,871	(1,155,264)	(4,114)	(1,456,386)
Cash flows from financing activities					
Proceeds from issue of shares		-	-	-	-
Share issue cost		-	-	-	-
Loan granted		9,440	(1,182,466)	(34,381)	(1,182,466)
Payment of finance lease liabilities		(81,329)	(28,433)	-	-
Net cash flows (used in)/from financing activities		(71,889)	(1,210,899)	(34,381)	(1,182,466)
Net (decrease)/increase in cash and cash equivalents held		(223,101)	(2,708,062)	(665,572)	(2,948,179)
Net foreign exchange differences		(6,787)	(2,566)	-	-
Cash and cash equivalents at the beginning of period		6,583,519	9,294,147	6,345,969	9,294,147
Cash and cash equivalents at end of period	9	6,353,631	6,583,519	5,680,397	6,345,968

The above statements of cash flows 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 2009 was authorised for issue in accordance with a resolution of the Directors on 31 March 2010. The company has the power to amend and reissue the financial report.

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

The principal accounting policies in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Morning Star Holdings (Australia) Limited as an individual entity, and the consolidated group consisting of Morning Star Holdings (Australia) Limited and its subsidiaries.

(a) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2009 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- (i) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs must be expensed. This is different to the Group's current policy which is set out in note 2(d).

The revised AASB 127 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This is consistent with the Group's current accounting policy if significant influence is not retained.

The Group will apply the revised standards prospectively to all business combinations and transactions with non-controlling interest from 1 July 2009.

- (ii) AASB 2008-6 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009)

The amendments to AASB 5 *Discontinued Operations* and AASB 1 *First-Time Adoption of Australian-Equivalents to International Financial Reporting Standards* are part of the IASB's annual improvements project published in May 2008. They clarify that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosures should be made for this subsidiary if the definition of a discontinued operation is met. The Group will apply the amendments prospectively to all partial disposals of subsidiaries from 1 July 2009.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) New accounting standards and interpretations (continued)

- (iii) AASB 2008-7 *Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 July 2009)

In July 2008, the AASB approved amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards* and AASB 127 *Consolidated and Separate Financial Statements*. The Group will apply the revised rule prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Under the entity's current policy, these dividends are deducted from the cost of the investment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

- (iv) AASB 2008-8 Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* (Effective 1 July 2009)

AASB 2008-8 amends AASB 139 *Financial Instruments: Recognition and Measurement* and must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

- (v) AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (effective 1 July 2009)

AASB retains the substance of the previous version. However, the structure has been changed to make it easier for the reader to understand and better to handle future changes. The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

- (vi) AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009);

The majority of amendments in AASB 2009-4 should not have a significant impact on the Group's accounting policies.

AASB 2 *Share Based Payments* revises the scope of the standard in relation to AASB 3 *Business Combinations*. Previously the Group could not apply this standard to transactions in which the Group acquired goods as part of the net assets acquired in a "business combination". "

- "Business combination" is now noted to include a combination of entities or businesses under common control or the contribution of a business on the formation of a joint venture.
- AASB Interpretation 9 *Reassessment of Embedded Derivatives* revises the scope of the standard in relation to AASB 3 *Business Combinations*. The standard now applies to embedded derivatives in contracts acquired in (a) a business combination, (as defined in AASB 3 *Business Combinations* (as revised in 2008)), (b) a combination of entities or businesses under common control (as described in paragraphs B1-B4 of AASB 3, (revised 2008)) and (c) the formation of a joint venture as defined in AASB 131 *Interests in Joint Ventures*.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) New accounting standards and interpretations (continued)

(vi) AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 July 2009) (continued);

- Interpretation 16 Hedges of a Net Investment in a Foreign Operation may allow some entities to apply net investment hedging when previously they could not.
- AASB 138 Intangible Assets may allow the Group to recognise a separate intangible asset when acquired as part of a business combination, but only together with a related asset/liability. In this case, this intangible asset is recognised separate from goodwill but together with the related asset/liability.

The Group will apply the amended standard from 1 July 2009. It is not expected to have a material impact on the Group's financial statements.

(vii) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 January 2010)

The majority of amendments in AASB 2009-5 should not have a significant impact on the Group's current accounting policies.

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations has introduced specific disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- AASB 8 Operating Segments, editorial amendments have been made.
- AASB 101 Presentation of Financial Statements amends the classification of current and non-current convertible instruments.
- AASB 107 Cash Flow Statements may require some entities to change their classification of expenditure on items such as research and development or mineral exploration from investing activities to operating activities; and
- AASB 117 Leases may affect the classification of leases of land and buildings where leases are for a long period of time.
- AASB 118 Revenue introduces the paragraph "Recognition and measurement" to determine whether the Group is acting as a principal or as an agent.
- AASB 136 Impairment of Assets amends the method in which goodwill is allocated to each unit or units in respect of goodwill impairment testing.
- AASB 139 Financial Instruments: Recognition and Measurement; Addresses the following amendments, (a) the treatment of loan prepayment penalties as closely related embedded derivatives, (b) the scope of exemption for business combination contracts and (c) cash flow hedge accounting

The Group will apply the amended standard from 1 July 2010. It is not expected to have a material impact on the Group's financial statements.

(viii) AASB 2009-6 *Amendments to Australian Accounting Standards* (effective 1 January 2010);

AASB 2009-6 only makes editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS's by the IASB. The amendments are unlikely to impact the Group's current accounting policies. The Group will apply the amended standards from 1 January 2010.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(a) New accounting standards and interpretations (continued)

(viii) AASB 2009-7 *Further Amendments to Australian Accounting Standards* (effective 1 July 2009)

AASB 2009-7 only makes editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS's by the IASB. The standards affected as a result of the amendments are as follows: AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*; AASB 7 *Financial Instruments: Disclosures*; AASB 107 *Statement of Cash Flows*; AASB 112 *Income Taxes*; AASB 136 *Impairment of Assets*; AASB 139 *Financial Instruments: Recognition and Measurement* and Interpretation 17 *Distribution of Non-cash Assets to Owners*. The amendments are unlikely to impact the Group's current accounting policies. The Group will apply the amended standards from 1 July 2010.

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 report has also been prepared on a historical cost basis, as modified by the revaluation of assets and liabilities acquired as part of a business combination.

The financial report is presented in Australian dollars.

(b) Compliance with IFRS

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

(c) Basis of consolidation

(i) Subsidiaries

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). Interests in associates are equity accounted and are not part of the consolidated Group (see note 1 (c) (ii) below).

Subsidiaries are all 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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(c) Basis of consolidation (continued)

(i) Subsidiaries (continued)

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 1 (d)).

Non-controlling 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 statement of financial position, separately from parent shareholders' equity. Non-controlling interests are not recognised when the minorities share of assets and liabilities results in an accumulated loss.

(ii) Associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates. Goodwill included in the carrying amount of the investment in associate is not tested separately, rather the entire carrying amount of the investment is tested for impairment as a single asset. If an impairment is recognised, the amount is not allocated to the goodwill of the associate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's statement of comprehensive income as a component of other income.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(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.

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) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services,
- nature of the production processes,
- type or class of customer for the products and services,
- methods used to distribute the products or provide the services, and if applicable
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately.

However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(f) 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

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 for each statement of financial position are translated at exchange rates prevailing at balance date.

Income and expenses for each statement of comprehensive income are translated at average exchange rates, unless this is not a reasonable assumption of the cumulative effect of the rates prevailing on transaction dates, in which case income and expenses are translated at the dates of the transaction.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities and of borrowings are taken to shareholder's equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and are translated at the closing rate.

(g) Cash and cash equivalents

Cash and cash equivalents in the statements of financial position 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 statement of cash flows, 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.

(h) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised initially at fair value and subsequently measured at amortised 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)

2. Summary of significant accounting policies (continued)

(i) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

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

Raw materials – purchase cost on a first-in, first-out basis. 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 realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) 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 recognised 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 recognised 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 derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

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 amortised cost using the effective interest method. Gains and losses are recognised in profit and loss when the loans and receivables are derecognised 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.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. Any impairment loss is recognised as the difference between the assets carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(k) 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 capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at cost, less accumulated depreciation on buildings and less any impairment losses recognised 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 amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition

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

(l) 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 expense 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 statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(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:

- Alumatic SA Holdings Proprietary Limited and controlled entities
- Realm Resources Limited
- Realm Resources SA (Proprietary) Limited

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 to which goodwill and indefinite lived intangibles have been allocated. Further details on the methodology and assumptions are outlined in notes 12, 14, 15 and 24.

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

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(o) Provisions and employee benefits (continued)

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

The cost of these equity-settled transactions with persons 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 23.

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. Non-market vesting conditions are included in assumptions about the number of options that are expected to be exercisable. The cost of equity-settled transactions is recognised, 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 persons become fully entitled to the award (the vesting date).

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(p) Share-based payment transactions (continued)

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income 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 statement of comprehensive income 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.

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 recognised as if the terms had not been modified. An additional expense is recognised 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 recognised for the award is recognised 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.

(r) Revenue recognition

Revenue is recognised 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 recognised:

(i) *Sale of goods*

Revenue from the sale of goods is recognised 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).

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(r) Revenue recognition (continued)

(ii) Rendering of services

Revenue from the toll treatment of aluminium dross is recognised 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 recognised only to the extent of the expenses recognised that are recoverable.

(iii) Interest revenue

Revenue is recognised 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 recognised 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 and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities for each jurisdiction 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 reporting date.

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax 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 utilised except:

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(s) Income tax and other taxes (continued)

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

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Other taxes

Revenues, expenses and assets are recognised 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 recognised 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 statement of financial position.

Cash flows are included in the statement of cash flows 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.

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

2. Summary of significant accounting policies (continued)

(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 recognised 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.

The Group's overall risk management program seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Executive Directors.

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	
	2009	2008	2009	2008
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	6,353,631	6,583,519	5,680,397	6,345,968
Loan to other party (note 12)	-	-	-	-
Total	6,353,631	6,583,519	5,680,397	6,345,968

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)		Other comprehensive income Higher/(lower)	
	2009 \$	2008 \$	2009 \$	2008 \$
Consolidated				
+1% (100 basis points)	42,092	45,929	-	-
-.5% (50 basis points)	(21,046)	(22,964)	-	-
Parent				
+1% (100 basis points)	42,092	44,649	-	-
-.5% (50 basis points)	(21,046)	(22,325)	-	-

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 of ZAR9,334,620 (2008 ZAR8,366,667), the Group's statement of financial position 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 2009.

The following sensitivity for the Group is based on the foreign currency risk exposures in existence at the statement of financial position date.

At 31 December 2009, 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)		Other comprehensive income Higher/(lower)	
	2009 \$	2008 \$	2009 \$	2008 \$
Consolidated				
AUD/ZAR + 20%	5,046	7,700	-	-
AUD/ZAR - 10%	(2,523)	(3,850)	-	-
Parent				
AUD/ZAR + 20%	5,046	7,700	-	-
AUD/ZAR - 10%	(2,523)	(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 2009.

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

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
6 months or less	566,621	1,090,596	102,604	84,615
6 – 12 months	64,105	49,531	-	-
1 – 5 years	14,761	63,350	-	-
	645,487	1,203,477	102,604	84,615

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.

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

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

4. Significant accounting estimates and assumptions (continued)

(i) Significant Accounting Judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences where management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

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

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 recognised 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 recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised 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. Realm Resources Limited operates as an investment holding Company, as a result the Group has deemed that they effectively control Realm Resources Limited, through ownership and control, and thus consolidate Realm Resources Limited. Realm Resources SA (Proprietary) Limited operates as an investment holding Company, as a result the Group has deemed that they effectively control Realm Resources SA (Proprietary) Limited, through ownership and control, and thus consolidate Realm Resources SA (Proprietary) Limited.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

4. Significant accounting estimates and assumptions (continued)

(i) Significant Accounting Judgements (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 23. 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

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions.

The executive directors consider the business from both a product and a geographic perspective and has identified two reportable segments. Alumicor, in South Africa, which toll treats aluminium dross (this segment was established in August 2008), and Masedi Platinum (Proprietary) Limited and Nkwe Platinum (Scarlet) (Proprietary) Limited, in South Africa, which hold platinum resource tenements.

(b) Segment information provided to the executive directors

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2009 is as follows:

	Alumicor SA Holdings (Pty) Ltd \$	Head Office \$	Masedi Platinum (Proprietary) Limited \$	Nkwe Platinum (Scarlet) (Proprietary) Limited \$	Total \$
Year ending ended 31 December 2009					
Revenue					
Sales to external customers	5,193,334	-	-	-	5,193,334
Other revenue	23,148	407,491	-	-	430,639
Total segment revenue	5,216,482	407,491	-	-	5,623,973
Result					
Segment results	611,436	(9,613,705)	-	-	(9,002,269)
Finance costs	(14,092)	-	-	-	(14,092)
Net profit/(loss) for period	597,344	(9,613,705)	-	-	(9,016,361)
Assets and liabilities					
Segment assets	2,711,048	5,843,155	-	2,206,080	10,760,283
Segment liabilities	2,914,752	179,534	-	-	3,094,286
Depreciation	(222,650)	(3,498)	-	-	(226,148)
Impairment losses	-	(7,901,075)	-	-	(7,901,075)

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

5 Segment Information (continued)

(b) Segment information provided to the executive directors (continued)

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2008 is as follows:

	Alumicor SA Holdings (Pty) Ltd \$	Head Office \$	Total \$
Year ended 31 December 2008			
Revenue			
Sales to external customers	2,450,319	-	2,450,319
Other revenue	447	589,324	589,771
Total segment revenue	2,450,766	589,324	3,040,090
Result			
Segment results	(894,397)	(3,455,818)	(4,350,215)
Finance costs	(23,374)	-	(23,374)
Net loss for period	(917,771)	(3,455,818)	(4,373,589)
Assets and liabilities			
Segment assets	2,783,743	8,417,384	11,201,127
Segment liabilities	3,614,734	124,513	3,739,247
Depreciation	(202,228)	(460)	(202,688)
Impairment losses	(571,263)	(1,289,803)	(1,861,066)

(c) Other segment information

(i) Segment revenue

The revenue from external parties reported to the executive directors is measured in a manner consistent with that in the statement of comprehensive income. Revenues from external customers are derived from the toll treating of aluminium dross. A breakdown of revenues and results is provided in the tables above.

Segment revenue reconciles to total revenue from continuing operations as follows:

	Consolidated	
	2009	2008
	\$	\$
Total segment revenue	5,623,973	3,040,090
Total revenue from continuing operations	5,623,973	3,040,090

Alumicor SA Holdings (Pty) Ltd is domiciled in South Africa. Its sales to external customers are from one customer.

(ii) Segment net loss

The amounts provided to the executive directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

5 Segment Information (continued)

(ii) Segment net loss (continued)

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2009	2008
	\$	\$
Segment losses	(9,016,361)	(4,373,589)
Intersegment eliminations	-	583,197
Total losses per the financial statements	(9,016,361)	(3,790,392)

(iii) Segment assets

The amounts provided to the executive directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Reportable segments' assets are reconciled to total assets as follows:

	Consolidated	
	2009	2008
	\$	\$
Segment assets	10,760,283	11,201,127
Inter-segment eliminations	-	(1,887,832)
Total assets per the financial statements	10,760,283	9,313,295

(iv) Segment liabilities

The amounts provided to the executive directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total assets as follows:

	Consolidated	
	2009	2008
	\$	\$
Segment liabilities	3,094,286	3,739,247
Inter-segment eliminations	(2,371,869)	(2,495,872)
Total liabilities per the financial statements	722,417	1,243,375

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

6 Expenses

Expenses from Continuing Operations

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Amounts included in administrative and other expenses				
Impairment of goodwill	7,901,075	1,242,967	-	-
Impairment provision loan	122,525	1,289,803	122,525	1,289,803
Impairment of fixed assets	-	571,263	-	-
Finance charges	14,092	23,374	-	-
Depreciation	38,660	44,403	3,498	460
Impairment of investment in subsidiary	-	-	7,901,075	1,826,165
Rental expense relating to operating leases	3,922	1,069	-	-
Employee benefits expense	1,622,316	663,577	521,925	168,560
Administrative fine	-	129,716	-	-
(b) Amount included in cost of sales				
Depreciation	183,990	158,285	-	-

7 Income tax

(a) Income tax expense

The major components of income tax expense are:

Current income tax

Adjustment in respect of current income tax of previous years

Current income tax (benefit)/charge

Deferred income tax

Relating to origination and reversal of temporary differences

Income tax expense (credit)

	36,327	1	36,327	1
	141,876	(99,861)	214,247	(99,861)
	(18,126)	26,489	(35,970)	26,489
	160,077	(73,371)	214,604	(73,371)

(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	(8,856,284)	(3,863,763)	(9,304,613)	(3,529,189)
At the Parent entity's statutory income tax rate of 30% (2008: 30%)	(2,656,885)	(1,159,129)	(2,791,384)	(1,058,757)
Adjustments in respect of current income tax of previous years	36,327	1	36,327	1
Section 40-880	(20,950)	(18,775)	(20,950)	(18,775)
Share based payments	236,516	69,369	236,516	69,369
Non deductible impairment	2,370,323	372,890	2,370,323	372,890
Non deductible expenses	2,923	-	2,923	-
Impairment of loans not recognised as a deferred tax asset	36,757	386,942	36,757	386,942
Tax losses not recognised as a deferred tax asset	155,066	275,331	344,092	174,959
Income tax (benefit)/expense	160,077	(73,371)	214,604	(73,371)

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

7 Income tax (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
(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 – impairment allowances	155,331	127,838	-	127,838
Gross deferred income tax assets	155,331	141,245	-	141,245
<i>Deferred tax liabilities</i>				
Temporary differences - Unrealised exchange gains	8,965	16,536	8,966	16,536
Temporary differences – interest receivables	67,965	23,362	67,965	23,362
Gross deferred income tax liabilities	76,930	39,898	76,931	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:

	2009	2008
	\$	\$
Tax losses	371,842	-
Temporary differences	36,325	-
	408,167	-

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
(d) Income tax payable				
Income tax payable	108,405	-	36,327	-

8 Earnings per share

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

	Consolidated	
	2009	2008
	\$	\$
(a) Earnings used in calculating earnings per share		
Net (loss)/profit from continuing operations attributable to ordinary equity holders of the parent	(9,016,361)	(3,790,392)
(b) Weighted average number of ordinary shares		
(Weighted average number of ordinary shares for basic and diluted earnings per share)	157,349,179	96,540,236

The diluted earnings per share has not been adjusted for the conversion of options to ordinary shares as the impact is antidilutive

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
9 Cash and cash equivalents				
Cash at bank and in hand	706,437	523,519	33,203	285,968
Short-term deposits	5,647,194	6,060,000	5,647,194	6,060,000
	<u>6,353,631</u>	<u>6,583,519</u>	<u>5,680,397</u>	<u>6,345,968</u>

10 Current assets – trade and other receivables

Trade Receivables	513,324	885,125	-	-
Allowance for impairment loss	-	-	-	-
Carrying amount of trade receivables	<u>513,324</u>	<u>885,125</u>	<u>-</u>	<u>-</u>

(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.

11. Current assets – inventories

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Raw materials (at cost)	<u>14,885</u>	<u>103,820</u>	<u>-</u>	<u>-</u>

(a) Inventory expense

Inventories recognised as an expense for the period ended 31 December 2009 totalled \$1,037,433 (2008:\$1,324,976).

12. Non-current assets - receivables

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loan to African Dune (a)	1,412,328	1,289,803	1,412,328	1,289,803
Provision for impairment	(1,412,328)	(1,289,803)	(1,412,328)	(1,289,803)
Carrying amount of non-current receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

The loan to African Dune is receivable in South African Rand. As the repayment source of the African Dune loan is in doubt a provision for full impairment has been raised.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

12. Non-current assets – receivables (continued)

(a) Loan to African Dune

Morning Star and African Dune have entered into a loan agreement whereby, during the year ended 31 December 2008, 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
At 1 January	1,289,803	-	1,289,803	-
Increase in provision for impairment during the year	122,525	1,289,803	122,525	1,289,803
At 31 December	1,412,328	1,289,803	1,412,328	1,289,803

(b) Fair values

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

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 – investments in associates accounted for using the equity method

(a) Investment details

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Unlisted				
Masedi Platinum (Proprietary) Limited	1,074,867	-	-	-
Nkwe Platinum (Scarlet) (Proprietary) Limited	1,131,213	-	-	-
Investments in associates	2,206,080	-	-	-

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost, less any allowance for impairment.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

13 Non-current assets – investments in associates accounted for using the equity method (continued)

(a) Investment details (continued)

The Group now owns 47.5% of Masedi Platinum (Proprietary) Limited (“Masedi”) and 49.99% of Nkwe Platinum (Scarlet) (Proprietary) Limited (“NPS”), acquired by issuing 15,214,348 shares in the Company, valued at date of acquisition at \$0.145 per share. Stage 2 of the acquisition transaction, which would result in acquisition of further shares in Masedi and NPS, is dependent upon Ministerial Consent from the South African Minister of Minerals and Energy for the acquisition of a controlling interest in terms of Section 11 of the Mineral and Petroleum Resources Development Act, No. 28 of 2002 (“MPRDA”) (in South Africa) for the transfer of the assts to Ream. If Ministerial approval is received, Realm will achieve 74% ownership of Masedi and NPS, the balance being held by a local Black Economic Empowerment (“BEE”) partner. Management expects completion to occur in Q2 2010 with the issue of a further 15,220,435 shares.

(b) Fair values

The fair values of the Group’s investment in Masedi Platinum (Proprietary) Limited and Nkwe Platinum (Scarlet) (Proprietary) Limited is as set out in note 13(c) below.

(c) Summarised financial information

The following table illustrates summarised financial information relating to the Group’s associates:

Extract from the associates’ statement of financial position:

	Consolidated 2009 \$
Current assets	35,905
Non-current assets – prospects, rights and exploration assets	588,942
	<hr/> 624,847
Current liabilities	(122,228)
Non-current liabilities	(459,303)
	<hr/> (581,531)
Net assets	<hr/> 43,316
Share of associates’ net assets	21,657
Goodwill on acquisition of associate	2,184,423
	<hr/> 2,206,080

(d) Impairment

For the purpose of impairment testing, the company obtained an independent valuation from Al Maynard & Associates Pty Ltd, Consulting Geologists, dated 31 March 2010, which indicates that the current cash value range for the associates’ mineral properties is in excess of the carrying amount of the investment in associates as above

(e) Contingent liabilities of associates

Nil

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

14. 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
	Consolidated					
	Land and Buildings \$	Plant and equipment \$	Motor vehicles \$	Computer equipment \$	Office furniture and equipment \$	Total \$
Year ended 31 December 2009						
At 1 January 2009 net of accumulated depreciation	996,165	465,664	95,420	3,906	-	1,561,155
Additions	-	123,065	-	18,107	25,860	167,032
Impairment (i)	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Exchange differences	(20,147)	(7,250)	(1,389)	(66)	(81)	(28,933)
Depreciation charge for the year	(44,780)	(126,592)	(36,359)	(5,544)	(12,872)	(226,147)
At 31 December 2009 net of accumulated depreciation- Net carrying amount	931,238	454,887	57,672	16,403	12,907	1,473,107
At 31 December 2009						
Cost at fair value	984,324	1,207,569	219,833	37,486	35,927	2,485,139
Accumulated depreciation and impairment	(53,086)	(752,682)	(162,161)	(21,083)	(23,020)	(1,012,032)
	931,238	454,887	57,672	16,403	12,907	1,473,107

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

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

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

(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 director's estimates. As a result no impairment was taken in 2009 (2008: \$583,197).

For the year ended 31 December 2008, the 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.

	Parent 2009 Computer equipment \$	Parent 2008 Computer equipment \$
Year ended 31 December 2009		
At 1 January 2009 net of accumulated depreciation	3,908	-
Additions	4,114	4,367
Depreciation charge for the year	(3,497)	(459)
At 31 December 2009 net of accumulated depreciation- Net carrying amount	4,525	3,908

15. Non-current assets – goodwill

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

	Consolidated		Parent	
	Goodwill 2009 \$	Goodwill 2008 \$	Total 2009 \$	Total 2008 \$
Year ended 31 December 2009				
At 1 January 2009	-	-	-	-
Acquisition of subsidiary (note 24)	7,901,075	1,242,967	-	-
Impairment	(7,901,075)	(1,242,967)	-	-
At 31 December 2009 – Net carrying amount	-	-	-	-

(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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

15. Non-current assets – goodwill (continued)

(c) Impairment tests for goodwill

For the year ended 31 December 2009, the recoverable amount of the Realm Resources Limited investment was determined by directors' estimates.

For the year ended 31 December 2009, the impairment of goodwill has resulted from there being an excess of the investment in Realm Resources Limited over the carrying value of the net assets of Realm Resources Limited.

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 and directors' estimates.

For the year ended 31 December 2008, the impairment of goodwill resulted from revenue, being negatively impacted by lower volumes while costs suffered due to rising costs. This resulted in losses being incurred at Alumicor SA Holdings (Pty) Limited.

For the year ended 31 December 2008, 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.

16. Current liabilities – trade and other payables

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Trade payables	391,939	956,450	-	-
Other payables	66,277	84,615	66,277	84,615
Carrying amount of trade and other payables	458,216	1,041,065	66,277	84,615

(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.

17. Interest-bearing loans and borrowings

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Current				
Obligations under finance leases and hire purchase contracts (note 25)	64,105	99,062	-	-
	64,105	99,062	-	-
Non - current				
Obligations under finance leases and hire purchase contracts (note 25)	14,761	63,350	-	-
	14,761	63,350	-	-

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

17. Interest-bearing loans and borrowings (continued)

The loans are secured by the equipment financed, interest is charged at variable rates between 10.5% and 15%.

(a) Fair values

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

(b) Interest rate, foreign exchange and liquidity risk

Details regarding interest rate, foreign exchange and liquidity risk is disclosed in note 3.

18. Contributed equity

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Ordinary shares (a)	20,821,894	10,022,465	20,821,894	10,022,465
	<u>20,821,894</u>	<u>10,022,465</u>	<u>20,821,894</u>	<u>10,022,465</u>

(a) Ordinary shares

	No.	No.	No.	No.
Issued and fully paid	161,197,809	104,707,809	161,197,809	104,707,809

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 2008	182,295,777	7,584,787
Share consolidation	(91,147,853)	-
Share scheme issue	2,250,000	175,701
Shares issued for subsidiary	11,309,885	2,261,977
At 1 January 2009	104,707,809	10,022,465
Share scheme issue	6,500,000	594,949
Shares issued for subsidiary	34,775,652	7,998,400
Shares issued for investment in associate	15,214,348	2,206,080
At 31 December 2009	<u>161,197,809</u>	<u>20,821,894</u>

(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)

19. Retained earnings and reserves

(a) Movements in retained earnings were as follows:

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Balance 1 January	(2,093,255)	1,640,094	(1,785,124)	1,640,094
Net (loss)/profit	(9,016,361)	(3,763,949)	(9,519,217)	(3,455,818)
Share based payment reserve transferred to retained income	55,530	30,600	55,530	30,600
	<u>(11,054,086)</u>	<u>(2,093,255)</u>	<u>(11,248,811)</u>	<u>(1,785,124)</u>

(b) Other reserves

	Consolidated			Parent
	Equity benefits reserve	Foreign currency translation	Total	Employee equity benefits reserve
	\$	\$	\$	\$
At 1 January 2008	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
Share based payment transferred to retained earnings	(55,530)	-	(55,530)	(55,530)
Employee Option Plan	193,439	-	193,439	193,439
Foreign currency translation	-	(8,561)	(8,561)	-
At 31 December 2009	193,439	76,619	270,058	193,439

(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 persons, including Key Management Personnel and consultants, as part of their remuneration. Refer to note 22 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)

20. Cash flow statement reconciliation

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
(a) Reconciliation of net profit after tax to net cash flows from operations				
Net (loss)/profit	(9,016,361)	(3,790,392)	(9,519,217)	(3,455,818)
<i>Adjustments for:</i>				
Depreciation	226,146	202,688	3,498	460
Impairment provision – African Dune loan	122,525	1,289,803	122,525	1,289,803
Impairment – investment in subsidiary	-	-	7,901,075	1,826,165
Impairment of goodwill	7,901,075	1,242,967	-	-
Impairment of fixed assets in subsidiary	-	571,263	-	-
Net (loss)/gain on foreign exchange	25,233	(55,121)	25,233	(55,121)
Share based payments expense	788,388	231,230	788,388	231,230
<i>Changes in assets and liabilities</i>				
(increase)/decrease in inventories	87,788	31,263	-	-
(increase)/decrease in trade and other receivables	195,788	(226,353)	(154,451)	(74,465)
(increase)/decrease in current tax assets	27,684	(6,578)	9,606	(6,578)
(increase)/decrease in deferred tax assets	(15,266)	(113,270)	141,245	(113,270)
(decrease)/increase in deferred tax liabilities	37,032	39,898	37,032	39,898
(decrease)/increase in trade and other payables	(729,067)	240,703	17,989	8,369
(decrease)/increase in tax provision	108,952	-	-	-
Net cash from (used in) operating activities	(240,083)	(341,899)	(627,077)	(309,327)

21. Related party disclosure

(a) Subsidiaries

The consolidated financial statements include the financial statements of Morning Star Holdings (Australia) Limited and its 100% owned subsidiaries Realm Resources Limited and Realm Resources SA (Proprietary) 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 (“KMP”)

Details to KMP, including remuneration paid, are included in note 22.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

21. 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:

	2009 \$	2008 \$
Group		
Rental payment to Marion McConnachie Family Trust	36,945	12,036

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

22. Key management personnel

(a) Compensation of key management personnel

	Consolidated		Company	
	2009 \$	2008 \$	2009 \$	2008 \$
Short - term employee benefits	579,204	422,027	440,475	284,769
Post – employment benefits	7,682	6,530	7,682	6,530
Termination benefits	-	146,000	-	146,000
Share based payment	394,253	231,230	394,253	231,230
Total compensation	981,139	805,787	842,410	668,529

Detailed remuneration disclosures are provided in the remuneration report on pages 16 to 22.

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

	Balance at beginning of period 1 January 2009	Granted as remuneration	Options exercised	Net change Other #	Balance at end of period 31 December 2009	Vested at 31 December 2009		
31 December 2009						Total	Exercisable	Not exercisable
Directors								
Ryan McConnachie	-	1,000,000	-	-	1,000,000	1,000,000	1,000,000	-
Dean Gallegos	1,500,000	-	-	(1,500,000)	-	-	-	-
Bruce Burrell	150,000	-	-	(150,000)	-	-	-	-
	1,650,000	1,000,000	-	(1,650,000)	1,000,000	1,000,000	1,000,000	-

Options expired on 15 May 2009

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

22 Key management personnel (continued)

31 December 2008	Balance at beginning of period 1	Granted as remuneration	Options exercised	Net change Other #	Balance at end of period 31	Vested at 31 December 2008		
	January 2008				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	-	(3,400,000)	1,650,000	1,650,000	1,650,000	-

Options expired on 31 May 2008

(c) Shareholdings of key management personnel (consolidated)

Shares held in Morning Star Holdings (Australia) Limited

31 Dec 2009	Balance at beginning of period 1 Jan 09 ordinary	Granted as remuneration ordinary	On exercise of options ordinary	Net change other	Balance at end of period 31 Dec 09
Directors					
Grant Button	750,000	500,000	-	99,000 (i)	1,349,000
Richard Rossiter	1,500,000	1,000,000	-	-	2,500,000
Theo Renard	-	1,000,000	-	-	1,000,000
Neale Fong	-	750,000	-	434,696	1,184,696
Clive Sinclair-Poulton (ii)	-	250,000	-	-	250,000
	2,250,000	3,500,000	-	533,696	6,283,696

(i) Indirect holding

(ii) resigned on 10 December 2009

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.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

22. Key management personnel (continued)

(d) Loans to key management personnel

- (i) Details of aggregates of loans to key management personnel for the year ended 31 December 2009 are as follows:

Total	Balance at beginning of period \$	Loans granted during period \$	Balance at end of period \$	Interest not charged \$
Grant Button	150,000	100,000	250,000	15,820
Richard Rossiter	300,000	200,000	500,000	31,640
Theo Renard	-	150,000	150,000	6,780
Neale Fong	-	150,000	150,000	1,130
Clive Sinclair-Poulton	-	37,500	37,500	1,695
Ryan McConnachie	-	-	-	-
	450,000	637,500	1,087,500	57,065

- (i) resigned on 10 December 2009

- (ii) Details of aggregates of loans to key management personnel for the year ended 31 December 2008 are as follows:

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

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.

- (iii) 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 9.04% (2008 10.94%).

23. 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		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Expenses arising from equity – settled share – based payment transactions	788,388	231,230	788,388	231,230
Total expense arising from share-based payment transactions	788,388	231,230	788,388	231,230

The share – based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2009 and 2008.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

23. Share-based payment plans (continued)

(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:

	2009 No.	2009 WAEP \$	2008 No.	2008 WAEP \$
OP				
Outstanding at the beginning of the year	1,650,000	0.20	3,400,000	0.07
Granted during the year	2,500,000	0.15	1,650,000	0.20
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(1,650,000)	(0.20)	(3,400,000)	(0.07)
Outstanding at the end of the year	2,500,000	0.15	1,650,000	0.20
Exercisable at the end of the year	-	-	-	-
SP				
Outstanding at the beginning of the year	2,250,000	0.20	-	-
Granted during the year	6,500,000	0.18	2,250,000	0.20
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	8,750,000	0.18	2,250,000	0.20
Exercisable at the end of the year	-	-	-	-

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

23. Share-based payment plans (continued)

(d) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options as at 31 December 2009 is 0.5 years (2008: 0.41 years) and for the shares is 5 years (2008: 4 years).

(e) Weighted average fair value

The weighted average fair value of options granted during the year was \$0.15 (2008: \$0.06). The weighted average fair value of the shares issued during the year was \$0.18 (2008: \$0.15)

(f) Option pricing model: OP and SP

Equity – settled transactions

The fair value of the equity – settled share options granted under OP 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.

The following tables list the inputs into the models used for the years ended 31 December 2009

SP 2009	Grant date share price \$	Exercise price \$	Expected volatility %	Option life (years)	Dividend yield %	Risk-free interest rate %	Weighted average share price at measurement date \$	Model used
1,250,000	0.09	0.15	117	4	-	4.475	0.15	Black - Scholes
2,500,000	0.15	0.15	117	4	-	4.475	0.15	Black - Scholes
1,500,000	0.20	0.20	132	4	-	4.829	0.20	Black - Scholes
1,250,000	0.14	0.20	97	4	-	5.013	0.20	Black - Scholes
OP 2009	Grant date share price \$	Exercise price \$	Expected volatility %	Option life (years)	Dividend yield %	Risk-free interest rate %	Weighted average share price at measurement date \$	Model used
2,500,000	0.19	0.15	132	0.5	-	4.829	0.15	Black - Scholes

The following tables list the inputs into the models used for the years ended 31 December 2008

SP 2008	Grant date share price \$	Exercise price \$	Expected volatility %	Option life (years)	Dividend yield %	Risk – free interest rate %	Weighted average share price at measurement date \$	Model used
2,250,000	0.178	0.20	85	4	-	5.73	0.15	Black - Scholes
OP 2008	Grant date share price \$	Exercise price \$	Expected volatility %	Option life (years)	Dividend yield %	Risk – free interest rate %	Weighted average share price at measurement date \$	Model used
1,650,000	0.178	0.20	85	0.8	-	5.73	0.06	Black - Scholes

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

23. Share-based payment plans (continued)

(f) Option pricing model: OP and SP (continued)

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.

24. Business combination

(a) Acquisition of Realm Resources Limited

On 16 October Morning Star Holdings (Australia) Limited acquired 100% of the voting shares of Realm Resources Limited, an unlisted proprietary company based in Australia.

The total cost of the combination was \$7,998,400 and comprised an issue of equity instruments. The Group issued 34,775,652 ordinary shares with a fair value of \$0.23.

The fair values of the identifiable assets and liabilities of Realm Resources Limited as at the date of acquisition were:

	Consolidated	
	Recognised on	Carrying value
	acquisition	\$
	\$	
Cash and cash equivalents	253,644	253,644
Other Receivables	6,685	6,685
	<u>260,329</u>	<u>260,329</u>
Accruals	158,004	158,004
Share holder loan	5,000	5,000
	<u>163,004</u>	<u>163,004</u>
Fair value identifiable net assets	97,325	
100% purchased	97,325	
Goodwill arising on acquisition (note 15)	7,901,075	
	<u>7,998,400</u>	
Cost of the combination:		
Shares issued, at fair value	7,998,400	
Total cost of the combination	<u>7,998,400</u>	
The cash inflow on acquisition is as follows:		
Net cash acquired with the subsidiary	253,644	
Net consolidated inflow	<u>253,644</u>	

Stage 1 of the Realm acquisition transaction was completed in November 2009 with the issue of 34,775,652 Morning Star shares. The Company now owns 100% of Realm Resources Limited ("Realm"). Stage 2, of the Realm acquisition, is dependent upon Ministerial consent in relation to the proposed acquisition of Masedi and NPS (note 13(a)). South African regulations require ministerial approval for a Section 11 transfer. Following Ministerial approval an additional 34,789,565 Morning Star shares will be issued to the previous shareholders of Realm Resources Limited.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

24. Business combination (continued)

(b) 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 dross 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	Carrying value
	acquisition	\$
	\$	
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	290,267	
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>	

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.

The company's 74% owned subsidiary, Alumicor Maritzburg (Pty) Ltd ("Alumicor"), has an agreement where its major customer, Hulamin Ltd ("Hulamin"), has an option to purchase the business of Alumicor for approximately South African Rand 31,000,000 (approximately \$4.7m, based on exchange rates as at 31 December 2009). This option cannot be exercised prior to 31 January 2011.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

24. Business combination (continued)

(b) Acquisition of Alumicor SA Holdings Proprietary Limited (continued)

Should Hulamin exercise its option to purchase the business of Alumicor, Morning Star Holdings would sell its aluminium dross treatment process to Hulamin for approximately \$4.7m. Results attributable to the Alumicor business, including total assets and liabilities, are disclosed in note 5 to the financial statements.

(c) Investments in subsidiaries

The consolidated financial statements include the following subsidiary:

	Equity interest %		Investment \$	
	2009	2008	2009	2008
Held directly by parent company				
Alumicor SA Holdings (Pty) Limited	74	74	3,713,998	3,713,998
Less: impairment			(1,826,166)	(1,826,166)
Realm Resources Limited	100	-	7,998,400	-
Less: impairment			(7,901,075)	-
Realm Resources SA Limited	100	-	-	-
Less: impairment			-	-
			<u>1,985,157</u>	<u>1,887,832</u>
Held by subsidiary Alumicor SA Holdings (Proprietary) Limited				
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.

During the year ended 31 December 2008, 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 for the year ended 31 December 2008.

(d) Loan to subsidiary

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Loan to Realm Resources (SA) Propriety Limited	-	-	2,240,460	-

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

25. 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 \$78,866. (2008: \$162,412) These lease contracts expire within two years.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
Within one year	71,433	121,305	-	-
After one year but not more than 2 years	16,448	77,574	-	-
Total minimum lease payments	87,881	198,879	-	-
Less amounts representing finance charges	(9,015)	(36,467)	-	-
Present value of minimum lease payments	78,866	162,412	-	-

(b) Capital expenditure commitments

At 31 December 2009 there are no capital expenditure commitments (2008: Nil).

(c) Other commitments

As disclosed in notes 13 and 24, if the Company receives ministerial consent from the South African Minister of Minerals and Energy for the controlling interest in Masedi and NPS, the company will issue:

- (i) an additional 15,220,435 shares in the company to acquire the controlling interests of Masedi and NPS; and
- (ii) an additional 34,775,652 shares in the company to the vendors of Realm Resources Limited (the previous shareholders of Realm Resources Limited).

26. Contingencies

There are no contingent liabilities as at 31 December 2009 (2008: Nil).

27. Events after the balance sheet date

There have been no significant events since the balance date to the date of this report.

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED

Notes to the financial statements (continued)

28. Auditors' remuneration

The auditor of Morning Star Holdings (Australia) Limited is HLB Mann Judd.

	Consolidated		Company	
	2009	2008	2009	2008
	\$	\$	\$	\$
<i>Amounts received or due and receivable by HLB Mann Judd (2008: Ernst & Young (Australia)) for:</i>				
• An audit or review of the financial report of the entity and any other entity in the consolidated group	45,000	35,000	45,000	35,000
• Other services in relation to the entity and any other entity in the consolidated group				
○ Tax compliance	-	-	-	-
○ Assurance related	-	-	-	-
	45,000	35,000	45,000	35,000
<i>Amounts received or due and receivable by other creditors not affiliated with HLB Mann Judd – BDO South Africa Incorporated (2008: Ernst & Young (Australia)) for:</i>				
• An audit or review of the financial report by overseas BDO South Africa Incorporated (2008: Ernst & Young) firm	22,897	45,000	-	-
	67,897	80,000	-	35,000

Morning Star Holdings (Australia) Limited

Directors' Declaration

In the opinion of the directors:

- (a) The financial statements and notes set out on pages 27 to 73 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 2009 and of their performance for the financial year ended on that date; and
 - (ii) Complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements.
- (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.

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 2009.



Richard Rossiter
Managing Director
Sydney

31 March 2010

On behalf of the board

MORNING STAR HOLDINGS (AUSTRALIA) LIMITED
ABN 98 008 124 025**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 statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both the company and the Morning Star Holdings (Australia) Limited Group ("the consolidated entity") as set out on pages 27 to 74. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

INDEPENDENT AUDITOR'S REPORT
(continued)

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 complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Morning Star Holdings (Australia) Limited on 31 March 2010 would be in the same terms if provided to the directors as at the time of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of Morning Star Holdings (Australia) Limited is 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 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(b).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 22 of the directors' report for the year ended 31 December 2009. 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 2009 complies with section 300A of the *Corporations Act 2001*.



HLB MANN JUDD
Chartered Accountants



A G Smith
Partner

Sydney
31 March 2010

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 12 March 2010.

(a) Distribution of equity securities

(i) Ordinary share capital

- 161,197,809 fully paid ordinary shares are held by 729 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) Options

- Nil. Options do not carry a vote.

The number of shareholders, 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
Nkwe Platinum (South Africa) (Pty) Limited	15,214,348	9.44
Sorrel Enterprises Limited	11,309,885	7.02
Mr Earl Evans	7,000,000	4.34
Sunshore Holdings Pty Ltd	6,558,250	4.07
Berpaid Pty Ltd	6,150,000	3.82
Removale Pty Ltd	4,363,000	2.71
Mr Ahmad Fuad Ali	4,346,956	2.70
Jessel Limited	4,346,956	2.70
McLaren Investments Limited	3,500,000	2.17
Merrill Profits Limited	3,500,000	2.17
Bejjol Pty Ltd <Bejjol Superannuation Fund>	3,477,565	2.16
Citicorp Nominees Pty Limited	3,350,000	2.08
Gun Capital Management Limited	3,303,688	2.05
Mr Adrian Stephen Paul	3,042,869	1.89
Mr David Nasir Yusoff	3,042,869	1.89
Dr Salim Cassim	2,935,000	1.82
Fairy Security Pty Ltd	2,745,000	1.70
Exchange Minerals Limited	2,608,174	1.62
Mr Richard David Rossiter	2,500,000	1.55
Chamen & Co Pty Ltd	2,425,000	1.50
	<hr/> 95,719,560 <hr/>	<hr/> 59.38 <hr/>

(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.