

**Morning Star Holdings (Australia) Limited**  
**ABN 98 008 124 025**

**Appendix 4E Information  
& Financial Report**

**For the Year Ended  
31 December 2006**

**Contents**

	<b>Page Number</b>
4E Results for Announcement to Market	1-2
Company Information	3
Balance Sheet	4
Income Statement	5
Cash Flow Statement	6
Statement of Changes in Equity	7
Notes to the Financial Statements	8-25

# Morning Star Holdings (Australia) Limited

## RESULTS FOR ANNOUNCEMENT TO THE MARKET YEAR ENDED 31 DECEMBER 2006

	December 2006 \$	December 2005 \$	Change \$	Change %
<b>REVENUE FROM CONTINUING OPERATIONS</b>	152,136	142,042	10,094	7.11
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX EXPENSE</b>	(104,894)	6,040	(110,934)	--
<b>PROFIT/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS</b>	(104,894)	6,040	(110,934)	--

### DIVIDENDS

There were no dividends proposed or paid during 2006 (2005: Nil)

	December 2006	December 2005
<b>NET TANGIBLE ASSETS PER SHARE</b>	3.81¢	3.90¢

## **Morning Star Holdings (Australia) Limited**

### **RESULTS FOR ANNOUNCEMENT TO THE MARKET (Cont'd) YEAR ENDED 31 DECEMBER 2006**

#### **COMMENTARY ON RESULTS**

The Group continues to evaluate new business opportunities, however at the time of writing this report, a suitable prospect had not been identified.

The main assets of the Group remain in cash and cash equivalents held in interest bearing deposits.

Revenue for the year was \$152,136 (2005 \$142,042) resulting in a net loss after tax for the year of \$104,894 (2005: profit of \$6,040).

# Morning Star Holdings (Australia) Limited

## COMPANY INFORMATION

### DIRECTORS

Dean Lloyd Gallegos (Appointed 23 August 2006)  
Bruce David Burrell (Appointed 5 September 2006)  
David Barwick (Appointed 12 October 2006)  
Martin Gerard Hanrahan (Resigned 29 January 2007)  
Kim Siw Tang (Resigned 5 September 2006)  
Wei Chia Chiang (Resigned 3 August 2006)  
Kok Khiong Hong (Resigned 3 August 2006)  
Lock Seng Wong (Resigned 23 August 2006)  
Andrew Khoo (Resigned 5 September 2006)  
Susannah Mei Ling Chui (Alternate Director) (Resigned 3 August 2006)

### COUNTRY AND DATE OF INCORPORATION

Australia, 30 January, 1987

### AUSTRALIAN BUSINESS NUMBER (ABN)

98 008 124 025

### SECRETARY

Dean Lloyd Gallegos (Appointed 31 October 2006)  
Gordon Alexander McRobert (Resigned 31 October 2006)

### BANKERS

Bank of Western Australia Ltd.

### REGISTERED OFFICE

Level 12  
37 Bligh Street  
Sydney NSW  
AUSTRALIA 2000  
Telephone : (02) 9233 2520  
Facsimile: (02) 9233 2530  
Website: www.msh.net.au

### SOLICITORS:

Hopgood Ganim  
Level 8  
Waterfront Place  
1 Eagle Street  
Brisbane, QLD 4000

### SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 2, Reserve Bank Building  
45 St George's Terrace  
Perth WA 6000

### AUDITORS

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

# Morning Star Holdings (Australia) Limited

## BALANCE SHEET AS AT 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		2,626,488	2,631,909	2,626,488	1,729,452
Trade and other receivables	6	43,629	31,045	43,629	29,426
<b>TOTAL CURRENT ASSETS</b>		<u>2,670,117</u>	<u>2,662,954</u>	<u>2,670,117</u>	<u>1,758,878</u>
<b>NON-CURRENT ASSETS</b>					
Receivables	7	-	-	-	1,098,032
Available for sale financial assets	8	-	-	-	20
Deferred tax assets	4	32,939	66,990	32,939	66,990
<b>TOTAL NON-CURRENT ASSETS</b>		<u>32,939</u>	<u>66,990</u>	<u>32,939</u>	<u>1,165,042</u>
<b>TOTAL ASSETS</b>		<u>2,703,056</u>	<u>2,729,944</u>	<u>2,703,056</u>	<u>2,923,920</u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	9	116,854	48,720	116,854	26,881
Income tax payable	4	11,252	-	11,252	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>128,106</u>	<u>48,720</u>	<u>128,106</u>	<u>26,881</u>
<b>NON-CURRENT LIABILITIES</b>					
Deferred tax liabilities	4	-	1,380	-	1,380
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>-</u>	<u>1,380</u>	<u>-</u>	<u>1,380</u>
<b>TOTAL LIABILITIES</b>		<u>128,106</u>	<u>50,100</u>	<u>128,106</u>	<u>28,261</u>
<b>NET ASSETS</b>		<u>2,574,950</u>	<u>2,679,844</u>	<u>2,574,950</u>	<u>2,895,659</u>
<b>EQUITY</b>					
Contributed equity	10	975,000	975,000	975,000	975,000
Retained earnings	11	1,599,950	1,704,844	1,599,950	1,920,659
<b>TOTAL EQUITY</b>		<u>2,574,950</u>	<u>2,679,844</u>	<u>2,574,950</u>	<u>2,895,659</u>

# Morning Star Holdings (Australia) Limited

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>CONTINUING OPERATIONS</b>					
Bank Interest Revenue		152,136	141,699	107,537	88,424
		<hr/>	<hr/>	<hr/>	<hr/>
<b>REVENUE</b>		152,136	141,699	107,537	88,424
Other income	3(a)	-	343	8,280,576	-
Directors fees and other expenses	3(b)	(68,618)	(8,946)	(68,618)	(8,946)
Central administration expenses		(144,489)	(155,149)	(137,744)	(122,026)
Other expenses	3(c)	-	-	(8,458,537)	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		(60,971)	(22,053)	(276,786)	(42,548)
<b>INCOME TAX (EXPENSE)/BENEFIT</b>	4	(43,923)	28,093	(43,923)	28,093
		<hr/>	<hr/>	<hr/>	<hr/>
<b>PROFIT/(LOSS) AFTER TAX FROM CONTINUING OPERATIONS</b>		(104,894)	6,040	(320,709)	(14,455)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF THE PARENT</b>	11	(104,894)	6,040	(320,709)	(14,455)
		<hr/>	<hr/>	<hr/>	<hr/>
Basic earnings per share (cents per share)	18	(0.1565)	0.009		
Diluted earnings per share (cents per share)	18	(0.1565)	0.009		
Dividends per share (cents per share)		0.00	0.00		

# Morning Star Holdings (Australia) Limited

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers (inclusive of GST)		3,838	11,050	-	11,000
Payments to suppliers and employees (inclusive of GST)		(182,894)	(175,599)	(26,052)	(143,821)
Other income received		-	344	-	-
Interest received		156,734	142,638	110,516	88,844
Income tax payments/(refunds)		8,347	(8,330)	8,347	(8,326)
Goods and services tax refunds/(payments)		8,554	10,658	12,206	(669)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	19(a)	(5,421)	(19,239)	105,017	(52,972)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Advances from/(to) related parties		-	-	792,019	141,197
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		-	-	792,019	141,197
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
		-	-	-	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(5,421)	(19,239)	897,036	88,225
Cash and cash equivalents at beginning of period		2,631,909	2,651,148	1,729,452	1,641,227
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19(b)	2,626,488	2,631,909	2,262,488	1,729,452

# Morning Star Holdings (Australia) Limited

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2006

<b>CONSOLIDATED</b>	<b>Issued Capital \$</b>	<b>Retained Earnings \$</b>	<b>Total \$</b>
<b>At 1 January 2005</b>	975,000	1,698,804	2,673,804
Profit / (Loss) for the period	-	6,040	6,040
<b>At 31 December 2005</b>	975,000	1,704,844	2,679,844
<b>At 1 January 2006</b>	975,000	1,704,844	2,679,844
Profit / (Loss) for the period	-	(104,894)	(104,894)
<b>At 31 December 2006</b>	975,000	1,599,950	2,574,950

  

<b>PARENT</b>			
<b>At 1 January 2005</b>	975,000	1,935,114	2,910,114
Profit / (Loss) for the period	-	(14,455)	(14,455)
<b>At 31 December 2005</b>	975,000	1,920,659	2,895,659
<b>At 1 January 2006</b>	975,000	1,920,659	2,895,659
Profit / (Loss) for the period	-	(320,709)	(320,709)
<b>At 31 December 2006</b>	975,000	1,599,950	2,574,950



# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

### 1. CORPORATE INFORMATION

The financial report of Morning Star Holdings (Australia) Limited (the Company) for the year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 23 February 2007.

Morning Star Holdings (Australia) Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Table of Contents

- (a) Basis of preparation
- (b) Basis of consolidation
- (c) Business combinations
- (d) Statement of Compliance
- (e) Cash and cash equivalents
- (f) Trade and other receivables
- (g) Investments and other financial assets
- (h) Trade and other payables
- (i) Share based payment transactions
- (j) Contributed equity
- (k) Taxes
- (l) Revenue recognition
- (m) Earnings per share

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for investment properties, land and buildings, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars.

#### (b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Morning Star Holdings (Australia) Limited and its subsidiaries as at 31 December 2006 each year (the Group).

Subsidiaries are all those entities (including special purpose 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 subsidiaries are prepared for the same reporting 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.

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.

Minority interests not held by the Group are allocated their share of the net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

#### (c) 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 at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### (d) Statement of compliance

Except for the amendments to AASB 101 *Presentation of Financial Statements*, which the Group has previously adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 December 2006.

These are outlined in the table below.

Reference	Title	Summary	Application date of standard *	Impact on Group financial report	Application date for Group *
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133 AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i>	1-Jan-07	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1-Jan-07
AASB 7	<i>Financial Instruments: Disclosures</i>	New standard replacing disclosure requirements of AASB 132	1-Jan-07	As above	1-Jan-07
UIG 7	Applying the Restatement Approach under AASB 129 <i>Financial Reporting in Hyperinflationary Economies</i>	Addresses the requirement in AASB 129 for financial statements to be stated in terms of the measuring unit current at the reporting date when reporting in the currency of a hyperinflationary economy.	1-Mar-06	As the Group has no investments in foreign operations operating in hyperinflationary economies, these amendments are not expected to have any impact on the Group's financial report.	1-Jan-07
UIG 8	Scope of AASB 2 Share-based Payment	Clarifies that the scope of AASB 2 includes transactions in which the equity cannot identify specifically some or all of the goods or services received as consideration for the equity instruments of the entity or other share-based payment.	1-May-06	Unless the Group enters into share-based payment arrangements unrelated to employee services in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1-Jan-07
UIG 9	Reassessment of Embedded Derivatives	Clarifies that an entity reassesses whether an embedded derivative contained in a host contract must be separated from the host and accounted for as a derivative under AASB 139 only when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required.	1-Jun-06	Unless the Group enters into arrangements containing embedded derivatives in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1-Jan-07

\* designates the beginning of the applicable annual reporting period..

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

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (e) **Cash and cash equivalents**

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

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

#### (f) **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 any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be collectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the group will not be able to collect the debt.

#### (g) **Investments and other financial assets**

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit and loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

#### (h) **Trade and other payables**

Trade and other payables are carried at amortised cost. 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.

Interest, when charged by the lender, is recognised on an effective interest basis.

#### (i) **Share-based payment transactions**

The group has established by way of a meeting of the shareholders held 23 January 2007 a Directors and Employees Option Plan to provide benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

As the Directors and Employees Option Plan was established in January 2007, no shares or rights over shares had been issued at 31 December 2006.

#### (j) **Contributed equity**

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

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (k) 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 based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

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

Deferred income tax liabilities are 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, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when the taxable temporary difference is associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences 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; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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.

#### *Tax consolidation legislation*

Morning Star Holdings (Australia) Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

The head entity, Morning Star Holdings (Australia) Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Morning Star Holdings (Australia) Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in Note 4.

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (k) Taxes (cont'd)

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

##### *Goods and Services Tax (GST)*

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

- where the GST incurred on a purchase of goods and service 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; and
- receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

#### (l) Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent 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:

##### *Interest Income*

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.

#### (m) Earnings per share

Basic earnings per share is calculated as net profit attributable to the members of the parent, adjusted to exclude costs of servicing equity (other than dividends), and preference share 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) and preference share 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

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>3. REVENUES AND EXPENSES</b>					
<i>Revenues and Expenses from Continuing Operations</i>					
<b>(a) Other income</b>					
Gain on inter-company payable forgiven	c(i)	-	-	8,280,576	-
Other		-	343	-	-
		<u>-</u>	<u>343</u>	<u>-</u>	<u>-</u>
		<u>-</u>	<u>343</u>	<u>8,280,576</u>	<u>-</u>
		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
<b>(b) Directors fees and other benefits expense</b>					
Directors fees – paid		6,000	8,000	6,000	8,000
Directors fees - accrued	b(i)	61,926	-	61,926	-
Superannuation		540	360	540	360
Other		152	586	152	586
		<u>68,618</u>	<u>8,946</u>	<u>68,618</u>	<u>8,946</u>
		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

(i) At a general meeting of shareholders held 23 January 2007, shareholders approved changes to the level of remuneration paid to the Executive Chairman and Non-Executive Directors. These changes were back-dated in most cases to the appointment date of the director concerned. As these changes to the level of directors fees had been circulated to shareholders at year end, an accrual was taken up for the portion of directors fees earned but not yet approved by the shareholders at year end 31 December 2006.

### (c) Other expenses

Loss on inter-company receivable forgiven	c(i)	-	-	8,458,537	-
		<u>-</u>	<u>-</u>	<u>8,458,537</u>	<u>-</u>
		<u>-</u>	<u>-</u>	<u>8,458,537</u>	<u>-</u>
		<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

(i) By way of a Members' Voluntary Liquidation the Company is currently in the process of winding up its wholly owned subsidiaries Stowford Pty Ltd and Barilla Pty Ltd. As a part of this process interest free inter-company loans between the three (3) companies were forgiven and written off in December 2006 for zero consideration. These transactions did not have any effect on the overall consolidated result, as the original loans all eliminated on consolidation. At the time the loans were written off, the balance showing as owed to the parent entity from Stowford Pty Ltd was \$8,458,537 (loan balance of \$9,099,537 less a provision for diminution of \$641,000 which had been taken up against the loan in December 2003) and the balance owed by the parent entity to Barilla Pty Ltd was \$8,280,576. The balance of the loan owed by Barilla Pty Ltd to Stowford Pty Ltd was \$9,024,508.

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
4. INCOME TAX					
(a) Income tax expense					
The major components of income tax expense are:					
Income Statement					
Current income tax:					
Current income tax charge		11,252	14,315	11,252	14,315
Adjustments in respect of current income tax of previous years		52,560	(38,380)	52,560	(38,380)
Deferred income tax					
Relating to origination and reversal of temporary differences		(19,889)	(4,028)	(19,889)	(4,028)
Income tax expense/(benefit) reported in the income statement		43,923	(28,093)	43,923	(28,093)
		=====	=====	=====	=====
(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:					
Accounting profit/(loss) before income tax from continuing operations		(60,971)	(22,053)	(276,786)	(42,548)
		=====	=====	=====	=====
At the Group's statutory income tax rate of 30% (2005: 30%)		(18,291)	(6,616)	(83,036)	(12,764)
Tax losses not brought to account as deferred tax assets		-	7,245	-	7,245
Tax consolidation adjustment		-	-	64,745	6,148
Expenditure non allowable for income tax purposes		9,654	9,658	9,654	9,658
Under/(over) provision previous years		52,560	(38,380)	52,560	(38,380)
Income tax expense/(benefit) attributable to continuing operations		43,923	(28,093)	43,923	(28,093)
		=====	=====	=====	=====

**NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED 31 DECEMBER 2006**

15



# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 4. INCOME TAX (cont'd)

#### Tax consolidation

##### *(i) Members of the tax consolidated group and the tax sharing arrangement.*

Morning Star Holdings (Australia) Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 January 2004. Morning Star Holdings (Australia) Limited is the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

##### *(ii) Tax effect accounting by members of the tax consolidated group*

#### Measurement method adopted under UIG 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

#### Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement the allocation of tax within the group is based on accounting profit, which is not an acceptable method of allocation under UIG 1052. The tax funding agreement requires payments to/from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount allocated under the tax funding agreement and the allocation under UIG 1052, the head entity accounts for these as equity transactions.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of the financial year. The head entity may also require repayment of interim funding amounts to assist with its obligations to pay tax instalments. The terms and conditions for these transactions are disclosed in note 17.

#### Tax consolidation contributions/(distributions)

Morning Star Holdings (Australia) Limited has recognised the following amounts as tax-consolidation contribution adjustments:

	PARENT	
	2006	2005
Total increase/(reduction) to tax expense of Morning Star Holdings (Australia) Limited	66,875	(24,987)
Total increase/(reduction) to inter-company assets of Morning Star Holdings (Australia) Limited	(4,914)	4,914
Total increase/(reduction) to equity accounts of Morning Star Holdings (Australia) Limited	61,961	(20,073)

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>5. DIVIDENDS PAID AND PROPOSED</b>					
<b>(a) Recognised amounts</b>					
There were no dividends proposed or paid during 2006 (2005: Nil)					
<b>(b) Franking credit balance</b>					
The amount of franking credits available for the subsequent financial year are:					
- franking account balance as at the end of the financial year (at 30%)		62,959	71,306	62,959	71,306
- franking credits that will be utilised from the use of income tax assets as at the end of the financial year		11,252	(60,907)	11,252	(60,907)
		<u>74,211</u>	<u>10,399</u>	<u>74,211</u>	<u>10,399</u>
		=====	=====	=====	=====

### 6. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

Sundry debtors	6(a)	-	4,598	-	2,979
Tax refundable	4	-	8,347	-	8,347
Prepayments		43,629	18,100	43,629	18,100
		<u>43,629</u>	<u>31,045</u>	<u>43,629</u>	<u>29,426</u>
		=====	=====	=====	=====

Terms and conditions relating to the above financial instruments:

(a) Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

### 7. NON-CURRENT ASSETS – RECEIVABLES

Related party receivables:

Wholly owned group		-	-	-	1,739,032
-subsidiary	17	-	-	-	(641,000)
Provision for diminution		-	-	-	
		<u>-</u>	<u>-</u>	<u>-</u>	<u>1,098,032</u>
		=====	=====	=====	=====

Details of the terms and conditions of related party receivables are set out in note 17.

### 8. NON-CURRENT ASSETS - AVAILABLE FOR SALE FINANCIAL ASSETS

At fair value		-	-	-	20
Shares – unlisted		<u>-</u>	<u>-</u>	<u>-</u>	<u>20</u>
		=====	=====	=====	=====

Available-for-sale investments consist of investments in ordinary shares and therefore have no fixed maturity date or coupon rate.

As the company by way of a members' voluntary liquidation is in the process of winding up its wholly owned subsidiaries Stowford Pty Ltd and Barilla Pty Ltd a final dividend distribution will not be paid, the fair value has been determined to be zero. Refer note 3 and 17, for further details.

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>9. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES</b>					
Trade payables	9(a)	7,058	-	7,058	-
Accrued directors fees	9(b)	62,896	-	62,896	-
Trade and other payables	9(c)	46,900	48,720	46,900	26,881
		<u>116,854</u>	<u>48,720</u>	<u>116,854</u>	<u>26,881</u>
		=====	=====	=====	=====

Terms and conditions relating to the above financial instruments:

- (a) Trade and other payables are non-interest bearing and normally settled on 30 day terms.
- (b) Accrued directors fees were approved at a meeting of shareholders held 23<sup>rd</sup> January 2007 (Note 3b). Normally these are settled monthly.
- (c) Other payables are non-interest bearing and have an average term of 30 days.

### 10. CONTRIBUTED EQUITY

#### (a) Ordinary shares

Ordinary shares fully paid					
Beginning of the financial year - 67,012,504 shares		975,000	975,000	975,000	975,000
		<u>975,000</u>	<u>975,000</u>	<u>975,000</u>	<u>975,000</u>
		=====	=====	=====	=====
End of the financial year - 67,012,504 shares		975,000	975,000	975,000	975,000
		<u>975,000</u>	<u>975,000</u>	<u>975,000</u>	<u>975,000</u>
		=====	=====	=====	=====

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

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

#### (b) Movements in shares on issue

During the course of the year no ordinary shares were issued (2005: NIL). At the end of the financial year 67,012,504 ordinary shares had been issued (2005: 67,012,504).

At a general meeting of shareholders held 23<sup>rd</sup> January 2007, shareholders approved the following changes to the level of shares on issue:

- (i) Share placement of 83,333,333 shares at an issue price of \$0.06 to raise \$5.0 million; and
- (ii) Shareholders purchase plan of 8,333,333 to raise up to \$500,000.

The Company intends to utilise some or all of these funds in connection with the Company's ongoing investigations into a business or businesses to acquire and, once appropriate terms are agreed, may form part of the purchase price of such business assets.

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>11. RETAINED EARNINGS</b>					
Movements in retained earnings were as follows:					
Balance 1 January 2006		1,704,844	1,698,804	1,920,659	1,935,114
Net profit/(loss)		(104,894)	6,040	(320,709)	(14,455)
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Balance 31 December 2006		<u>1,599,950</u>	<u>1,704,844</u>	<u>1,599,950</u>	<u>1,920,659</u>

## 12. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

### Employee Entitlements

The economic entity at reporting date did not have any employees or liability to pay employee entitlements.

### Superannuation Commitments

Contributions are made by the economic entity in accordance with the superannuation guarantee charge.

## 13. CONTINGENCIES

### Subsidiaries

The parent company has guaranteed under the terms of ASIC Class order 98/1418 any deficiency of funds should the subsidiaries be wound up. No such deficiencies currently exist.

## 14. EVENTS AFTER THE BALANCE SHEET DATE

At a general meeting of shareholders held 23 January 2007, changes to the level of remuneration paid to the Executive Chairman and Non-Executive Directors, refer note 3b and also a change to the share structure of the Company, refer note 10b, were both approved.

Since 31 December 2006 and up to the date of this report, apart from the items listed, no other item or event of a material nature has arisen to affect substantially the operations of the economic entity or the results of those operations or the state of affairs of the economic entity for the subsequent financial years.

## 15. KEY MANAGEMENT PERSONNEL

### (a) Details of key management personnel

#### Directors

D.L. Gallegos	Chairman (executive) - appointed 23 August 2006
B.D. Burrell	Director (non-executive) - appointed 5 September 2006
D. Barwick	Director (non-executive) - appointed 12 October 2006
K.S. Tang	Director (non-executive) - resigned 5 September 2006
W.C. Chiang	Director (non-executive) - resigned 3 August 2006
K.K. Hong	Director (non-executive) - resigned 3 August 2006
M.G. Hanrahan	Director (non-executive) - resigned 29 January 2007
L.S. Wong	Director (non-executive) - resigned 23 August 2006
A. Khoo	Director (non-executive) - resigned 5 September 2006
S.M.L. Chui	Director (alternate) - resigned 3 August 2006

#### Executives

R.R. Daniel	Company Secretary - resigned 3 February 2006
G.A. McRobert	Company Secretary - appointed 3 February 2006 - resigned 31 October 2006

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 15. DIRECTOR AND EXECUTIVE DISCLOSURES (cont'd)

#### (b) Compensation of Key Management Personnel

Morning Star Holdings (Australia) Limited has applied the option under Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by AASB 124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' report. These transferred disclosures have been audited.

#### (c) Options holdings of Key Management Personnel

At 31 December 2006 and up to the time of this report, no options had been issued by the Company to purchase ordinary shares. However, at a general meeting of shareholders held 23 January 2007 a Directors and Employees Option Plan was approved allowing the Company to issue options to subscribe for ordinary shares up to the following limits for key management personnel:

Directors	Options to purchase ordinary shares
D.L. Gallegos	3,100,000
B.D. Burrell	300,000
D. Barwick	300,000
M.G. Hanrahan	300,000

#### (d) Shareholdings of Key Management Personnel

Share interests held in Morning Star Holdings (Australia) Limited (number)

	Balance 01 Jan 06	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 31 Dec 06
<b>Directors</b>					
D.L. Gallegos	-	-	-	9,600,000	9,600,000
B.D. Burrell	-	-	-	-	-
D. Barwick	-	-	-	100,000	100,000
K.S. Tang	-	-	-	-	-
W.C. Chiang	-	-	-	-	-
K.K. Hong	-	-	-	-	-
M.G. Hanrahan	-	-	-	-	-
L.S. Wong	-	-	-	-	-
A. Khoo	-	-	-	-	-
S.M.L. Chui	-	-	-	-	-
<b>Executives</b>					
R.R. Daniel	-	-	-	-	-
G.A. McRobert	-	-	-	-	-
<b>Total</b>	-	-	-	9,700,000	9,700,000

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006 \$	2005 \$	2006 \$	2005 \$
<b>16. AUDITORS' REMUNERATION</b>					
The auditor of Morning Star Holdings (Australia) Limited is Ernst & Young.					
Amounts received or due and receivable by Ernst & Young for:					
• an audit or review of the financial report of the entity and any other entity in the consolidated group		19,000	19,400	16,333	6,260
• other services in relation to the entity and any other entity in the consolidated group					
- tax compliance		9,500	7,400	8,834	4,980
- assurance related		15,040	5,767	14,500	5,267
		<u>43,540</u>	<u>32,567</u>	<u>39,667</u>	<u>16,507</u>

## 17. RELATED PARTY DISCLOSURE

### (a) Subsidiaries

Name	Place of Incorp.	Class of Shares	Investment		Percentage of Equity Interest		Contribution to Profit/(Loss)	
			2006 \$	2005 \$	2006 %	2005 %	2006 \$	2005 \$
- Morning Star Holdings (Australia) Limited	Aust.	Ord.	-	-	-	-	(75,853)	(39,442)
Its wholly owned subsidiaries:								
- Stowford Pty. Limited	Aust.	Ord.	20	20	100	100	(1,701)	(16,398)
and its wholly owned subsidiary:								
- Barilla Pty. Limited	Aust.	Ord.	2	2	100	100	(27,340)	61,880
							<u>(104,894)</u>	<u>6,040</u>

Pursuant to Class Order 98/1418, relief has been granted to Stowford Pty Ltd and Barilla Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgment of their financial reports. The members of the Closed Group (Morning Star Holdings (Australia) Limited, Stowford Pty Ltd and Barilla Pty Ltd) believe they will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are the same as those disclosed under the consolidated entity for Morning Star Holdings (Australia) Limited.

### (b) Ultimate parent

Morning Star Holdings (Australia) Limited was the ultimate Australian parent entity and its ultimate parent entity was MUI Hong Kong Ltd up until 1 August 2006 when the major shareholder sold its shares in the Company. MUI Hong Kong Ltd is a company incorporated in Hong Kong.

### (c) Key management personnel

Details relating to the key management personnel, including remuneration paid are included in note 15

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 17. RELATED PARTY DISCLOSURE (cont'd)

#### (d) Transactions with related parties

##### *Wholly owned group transactions*

Interest free loans and advances repayable on demand were provided to/from Stowford Pty Ltd and Barilla Pty Ltd. The Company via a Members' Voluntary Liquidation is currently in the process of winding up it's wholly owned subsidiaries Stowford Pty Ltd and Barilla Pty Ltd. As a part of this process interest free inter-company loans between the three (3) companies were forgiven and written off in December 2006 for zero consideration. These transactions did not have any effect on the overall consolidated result, as the original loans all eliminated on consolidation. At the time the loans were written off, the balance showing as owed to the parent entity from Stowford Pty Ltd was \$8,458,537 (loan balance of \$9,099,537 less a provision for diminution of \$641,000 which had been taken up against the loan in December 2003) and the balance owed by the parent entity to Barilla Pty Ltd was \$8,280,576. The balance of the loan owed by Barilla Pty Ltd to Stowford Pty Ltd was \$9,024,508.

Stowford Pty Ltd is 100% owned by Morning Star Holdings (Australia) Limited and Barilla Pty Ltd is 100% owned by Stowford Pty Ltd.

##### *Other related party transactions with entities under common control*

Expenses relating to Morning Star Holdings (Australia) Limited of \$32,000 (2005: \$48,000) were incurred by the former related party Vista International Hotels Pty Ltd and recharged at cost to Morning Star Holdings (Australia) Limited. The amount owed to Vista International Hotels Pty Ltd at year end 31 December 2006 was \$Nil (2005: \$Nil).

### 18. EARNINGS PER SHARE

	2006	2005
	\$	\$
The following reflects the income used in the basic and diluted earnings per share computations:		
Net profit/(loss) from continuing operations attributable to ordinary equity holders of the parent used to calculate basic and diluted earnings per share.	(104,894)	6,040

No factors exist that would cause a difference in the net profit/(loss) used to calculate basic and diluted earnings per share.

	Number of shares	Number of shares
Weighted average number of shares used in calculating basic and diluted earnings per share:	67,012,504	67,012,504

During the course of the year no ordinary shares were issued (2005: NIL).

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	CONSOLIDATED		PARENT	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>19. CASH FLOW STATEMENT</b>					
<b>(a) Reconciliation of the net profit/(loss) after tax to net cash flows from operations</b>					
Net Profit/(loss)		(104,894)	6,040	(320,709)	(14,455)
<b>Adjustments for:</b>					
Net loss on forgiveness of inter-company receivables/payables		-	-	177,961	-
Net loss on disposal of available-for-sale investments		-	-	20	-
Income tax benefit transferred from subsidiaries		-	-	-	(24,987)
Other non-cash movement in inter-company receivables/payables		-	-	128,052	-
<b>Changes in assets and liabilities</b>					
(Increase)/decrease in trade and other receivables		(12,584)	(31,452)	(14,203)	420
(Increase)/decrease in deferred tax assets		34,051	(3,750)	34,051	(3,270)
(Increase)/decrease in prepayments		-	3,400	-	3,400
(Decrease)/Increase in trade and other payables		68,134	6,805	89,973	(5,918)
(Decrease)/Increase in tax provision		11,252	-	11,252	(8,036)
(Decrease)/Increase in deferred tax liabilities		(1,380)	(282)	(1,380)	(126)
Net cash from (used in) operating activities		<u>(5,421)</u>	<u>(19,239)</u>	<u>105,017</u>	<u>(52,972)</u>
<b>(b) Reconciliation of cash and cash equivalents</b>					
Balance comprises:					
- Cash at bank and in hand		2,626,488	34,681	2,626,488	9,875
- Short-term deposits		-	2,597,228	-	1,719,577
Closing balance		<u>2,626,488</u>	<u>2,631,909</u>	<u>2,626,488</u>	<u>1,729,452</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The Company closed its short-term deposits in 2006 and holds these funds in a BankWest business account. The funds are at call and earn an interest rate comparable to the former short-term deposits.

The former short-term deposits and the business account have a floating interest rate which has averaged 5.86% for the Year (2005: 5.42%).

The Company has been given relief from several listing rule requirements by the Australian Stock Exchange (ASX) after the capital reduction in order to allow shares in the Company to continue to trade on the ASX. As part of these conditions, the Company must invest the cash after the capital reduction in cash deposits or cash-like investments and provide the ASX with a monthly cash flow report.

### (c) Financing facilities available

At reporting date the economic entity did not have any financing facilities available.



# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 20. FINANCIAL INSTRUMENTS

#### (a) Interest rate risk

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits. The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments	Floating interest Rate		Fixed interest rate maturing in:								Non-interest Bearing		Total carrying Amount as per the Balance sheet		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years									
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 %	2005 %		
(i) Financial assets																
	2,626,488	2,631,909	-	-	-	-	-	-	-	-	2,626,488	2,631,909	5.86	5.42		
	-	-	-	-	-	-	-	-	-	4,598	-	4,598	N/A	N/A		
Total financial assets	2,626,488	2,631,909	-	-	-	-	-	-	-	4,598	2,626,488	2,636,507				
(ii) Financial liabilities																
	-	-	-	-	-	-	-	-	-	48,720	116,854	48,720	N/A	N/A		
	-	-	-	-	-	-	-	-	-	48,720	116,854	48,720				
Total financial liabilities																

# Morning Star Holdings (Australia) Limited

## NOTES TO THE FINANCIAL STATEMENTS (Cont'd) FOR THE YEAR ENDED 31 DECEMBER 2006

### 20. FINANCIAL INSTRUMENTS (cont'd)

#### (b) Net Fair Values

The net fair value of financial assets and liabilities are considered not materially different from the carrying value in the balance sheet.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

#### Recognised financial instruments

*Cash and cash equivalents:* The carrying amount approximates fair value because of their short-term to maturity.

*Trade and other receivables:* The carrying amount approximates fair value because of their short term to maturity.

*Trade and other payables:* The carrying amount approximates fair value because of their short-term to maturity.

#### (c) Credit risk exposures

The Group's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

#### Concentrations of credit risk

The Group is not materially exposed to any single debtor, or group of debtors having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions.

### 21. SEGMENT INFORMATION

The consolidated entity operated predominantly in one geographical and industry segment, concerning the investment of cash and cash equivalent assets in Australia.