



**MORNING STAR  
HOLDINGS  
(AUSTRALIA) LIMITED**

A.B.N. 98 008 124 025

**Annual Report 2006**

# Morning Star Holdings (Australia) Limited

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# Morning Star Holdings (Australia) Limited

## CORPORATE 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 18 October 2006)  
Gordon Alexander McRobert (Resigned 18 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](http://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 St  
Melbourne VIV 3000

# Morning Star Holdings (Australia) Limited

## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of Morning Star Holdings (Australia) Limited, I would like to present the Annual Report for the financial year ended 31 December 2006.

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, which are held in interest bearing deposits.

The Board would like to express their gratitude to our valued shareholders, clients, suppliers, and bankers for their support during the 2006 year.

On Behalf of the Board



**Dean L Gallegos**  
**Chairman**

**28 March 2007**

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2006.

### DIRECTORS

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

#### **Mr. Dean Lloyd GALLEGOS**

Mr. Gallegos has 14 years experience in the finance industry. In 1995 he was one of the founders of the Barton Capital group of companies, an investment banking stockbroking and corporate advisory firm. Mr Gallegos specialises in advising both public and private companies on acquisitions, mergers, capital raisings and balance sheet restructuring. He has also managed a significant number of initial public offerings and secondary market capital raisings for public and private companies and has been actively involved in due diligence investigations, prospectus drafting and marketing of capital raisings. He is currently the Chairman of Verus Investments Limited, a company listed on the ASX. Mr Gallegos was appointed to the Board on 23 August 2006. During the past three years Mr. Gallegos has also served as a director of the following other listed companies:

- Verus Investments Limited - Appointed December 2003 \*

\* denotes current directorship

#### **Mr. Bruce David BURRELL**

Mr Burrell is a Non Executive Director of Morning Star Holdings (Australia) Limited and was appointed to the Board on 5 September 2006. Mr. Burrell has over 30 years experience in the public company environment and has served as a director and company secretary of ASX listed companies during that period. He is a fellow of CPA Australia and holds a Master of Business Administration. During the past three years Mr. Burrell has also served as a director of the following other listed companies:

- Sunvest Corporation Limited - Appointed September 2006 \*
- Australian Institute of Property Management Limited – Appointed May 2002 \*

\* denotes current directorship

#### **Mr. David BARWICK**

Mr Barwick is a Non Executive Director of Morning Star Holdings (Australia) Limited and was appointed to the Board on 12 October 2006. Mr Barwick is an accountant by profession with over 34 years experience in the management and administration of publicly listed companies both in Australia and North America. During this period he has held the position of Chairman, Managing Director or President of over 26 public companies covering a broad range of activities. During the past three years Mr. Barwick has also served as a director of the following other listed companies:

- Metallica Minerals Limited - Appointed March 2004 \*
- Global Approach Limited - Appointed November 1996 \*
- Eastern Corporation Limited - Appointed September 2002; Resigned December 2003
- Macarthur Minerals Limited (Toronto Exchange) - Appointed October 2005 \*
- Jumbo Corporation Limited - Appointed August 2006 \*
- International Gold Mining Limited (Pending listing Toronto Exchange) - Appointed August 2006 \*

\* denotes current directorship

#### **Mr. Wei Chia CHIANG (B.Com)**

Mr. Chiang is the Business Development and Corporate Finance Senior Manager of Innoprise Corporation (a former shareholder of the Company). He also has extensive experience in the banking and investment fields. Mr Chiang resigned from the Board on 3 August 2006.

#### **Mr. Kok Khiong HONG (MBA, BA)**

Mr. Hong is the Company Secretary of Innoprise International Incorporated (a former shareholder of the company). He has extensive experience in banking and investments fields. Mr Hong resigned from the Board on 3 August 2006.

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### DIRECTORS (cont'd)

#### Mr. Martin Gerard HANRAHAN (B.Ec, CA)

Mr. Hanrahan is a Chartered Accountant and Merchant Banker. He is the Co-Head, Mergers & Acquisitions, and Executive Director, Corporate Finance of ANZ Investment Bank and has extensive experience in the provision of corporate financial advice particularly relating to mergers and acquisitions and capital raisings. Mr Hanrahan resigned from the Board on 29 January 2007.

#### Mr. Lock Seng WONG (BE, MEng)

Mr. Wong holds a Master of Engineering Science and was previously a University Lecturer. He is currently Managing Director of a proprietary company, which is involved in investment and property management. Mr Wong resigned from the Board on 23 August 2006.

#### Mr. Andrew KHOO (BA Hons. (Cambridge, M.A. Cambridge, M.B.A Barrister (LI))

Mr. Andrew Khoo has several years experience in the hotel industry. Formerly, the General Manager of County Hotels, he served as Corporate Affairs Director at Corus & Regal Hotel plc. UK and Laura Ashley plc. UK, prior to becoming a Property Developer. He holds a degree in Law from Cambridge University and was called to the Bar in 2004 and is a member of Lincoln's Inn. Mr Khoo resigned from the Board on 5 September 2006. During the past three years Mr. Khoo has also served as a director of the following other listed companies:

- Laura Ashley plc (UK) \*
- Network Foods International Ltd (Singapore) \*

\* denotes current directorship

#### Ms Susanah Mei Ling CHUI (Alternate)

Ms. Chui is the Alternate Director for Mr Wei Chia Chiang. She held the position of Group Financial Controller for more than 20 years in Innoprise Corporation Sdn. Bhd. (shareholder of Innoprise International Inc.) and currently holds the position of Group General Manager. Ms Chui resigned from the Board on 3 August 2006.

#### Mr Kim Siw TANG

Mr. Tang is the Executive Director of MUI properties Berhad. He also serves as Executive Director of Corus Hotels – Asia Pacific Region and Group Communications for the MUI Group. He had previously served as President of two international companies involved in property development and investment. Mr Tang was appointed to the Board on 7 February 2005. During the past three years Mr. Tang has also served and remains a director of the listed company MUI Properties Berhad. Mr Tang resigned from the Board on 5 September 2006.

### Interests in the shares and options of the company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Morning Star Holdings (Australia) Limited were:

|               | Number of<br>Ordinary<br>Shares | Number of<br>Options over<br>Ordinary<br>Shares |
|---------------|---------------------------------|---|
| D.L. Gallegos | 9,600,000                       | 3,100,000                                       |
| B.D. Burrell  | -                               | 300,000   |
| D. Barwick    | 100,000                         | 300,000   |
| M.G. Hanrahan | -                               | 300,000   |
| K.S. Tang     | -                               | -   |
| W.C. Chiang   | -                               | -   |
| K.K. Hong     | -                               | -   |
| L.S. Wong     | -                               | -   |
| A Khoo        | -                               | -   |
| S.M.L. Chui   | -                               | -   |

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### COMPANY SECRETARY

The position of Company Secretary was occupied by Mr Gordon Alexander McRobert until 18 October 2006. These duties are currently performed by the Executive Chairman Mr Dean Lloyd Gallegos.

#### **Mr. Gordon Alexander McRobert (M.A. (Hons) CA)**

Mr. McRobert is the Financial Controller of Network Foods Limited. He is a Chartered Accountant and has many years of accounting experience in the United Kingdom and Australia. He is also the Company Secretary of several companies in the MUI Group. Mr. McRobert was appointed as the Company Secretary on 3 February 2006 and resigned from the position 18 October 2006.

#### **Mr. Ronald Roy Daniel (ACCA (UK))**

Mr. Daniel was the Financial Controller of Network Foods Limited. He is a Chartered Certified Accountant and has many years of experience in the accounting field. He was also the Company Secretary of several companies in the MUI Group. Mr. Daniel resigned from the position of Company Secretary on 3 February 2006.

### BASIC EARNINGS PER SHARE

Loss per share was 0.1565 cents (2005: profit of 0.009 cents).

### DIVIDENDS

During the financial year ended 31 December 2006, no dividend was declared or paid (2005: Nil).

### PRINCIPAL ACTIVITIES

The principal activity of the entity remains a holder of cash assets while future investment opportunities are evaluated.

### EMPLOYEES

The consolidated entity has no employees as at 31 December 2006 (2005: Nil).

### REVIEW AND RESULTS OF OPERATIONS

As the entity is still yet to identify a suitable investment opportunity for its cash assets, in 2006 the main activities for the company were again concerned with the management of the cash assets and administration of the company.

Revenue, which is largely derived from interest on cash assets, for the year was \$152,136 (2005: \$142,042.) Net loss after tax for the year was \$104,894 (2005: profit of \$6,040).

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In August 2006 the Company's long term shareholders who were based in Asia, divested their shareholdings in the Company. At the same time the Board of the Company was reconstituted to include solely directors based in Australia. It is thought that with locally based directors and management, potential acquisitions can be more easily sourced and evaluated.

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.

There were no other significant changes in the Company's and the economic entities' state of affairs during the year, other than those disclosed in this report.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 23 January 2007, at a general meeting of shareholders, changes to the level of remuneration paid to the Executive Chairman and the Non-Executive Directors were approved along with changes to the share structure of the Company. Further details of both these changes are outlined in notes 3b(i) and 10b(i) to the financial statements.

Since 31 December 2006 and up to the date of this report, other than those items listed, there has been no other matter of a material nature that has arisen.

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue to invest in cash pending the identification of new business opportunities. Since 31 December 2006 and up to the date of this report, the directors had not identified any suitable investment.

### SHARE OPTIONS

On 23 January 2007, at a general meeting of shareholders, a Directors and Employees Option Plan was established to provide appropriate incentive schemes to attract and retain the services of an executive team.

#### Unissued shares

As at the date of this report, there were 4,000,000 unissued ordinary shares under options (zero at the reporting date).

#### Shares issued as a result of the exercise of options

During the financial year, no options to acquire ordinary shares in Morning Star Holdings (Australia) Limited were exercised.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, no director of the Company has been indemnified in respect of any matter. During the financial year, the Company paid a premium for an insurance policy for the benefit of the directors which is not prohibited by section 199B of the Corporations Act 2001. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

### REMUNERATION REPORT

This Remuneration Report outlines the director and executive remuneration arrangements of the company and the group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to 25.7.2 of AASB 124 *Related Party Disclosures*, which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04. For the purposes 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 Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent entity.

#### Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the Board and executives.

The Remuneration Committee assess the appropriateness of the nature and amount of remuneration of 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, high performing Board and executive team.

#### Remuneration philosophy

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

To this end, the company has established a Directors and Employees Options Plan to link the remuneration and the rewards of the Board and the executives to the performance of the Company.

#### Remuneration structure

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

#### Non-executive director remuneration

##### *Objective*

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

##### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The last determination was at a general meeting held 23 January 2007 when shareholders approved an aggregate remuneration of \$100,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed periodically. The Board considers external advice and the amount paid to non-executive directors of comparable companies when undertaking the review process.

Each non-executive director receives a fee of \$2,000 (plus GST) per month for being a director of the Company.



# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### REMUNERATION REPORT (cont'd)

#### Executive remuneration

##### Objective

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

- reward executives for Company performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- ensure total remuneration is competitive by market standards.

##### Structure

Over the reporting period and up to the time of this report, the only executive director of the Company was the current Executive Chairman.

The Executive Chairman receives a fee of \$10,000 (plus GST) per month based on a fixed three (3) year contract from the date of his appointment on 23 August 2006. The contract includes a clause requiring the Company to pay a lump sum of 75% of the remuneration remaining to the expiration of the 3 year term, if 50% of shareholders require him to step down from his executive position.

#### Remuneration for the year ended 31 December 2006

|  | Short-term<br>Salary & Fees |              | Post employment<br>Superannuation |            | Share-based Payment<br>Options |          | Total         |              |
|--|-----------------------------|--------------|-----------------------------------|------------|--------------------------------|----------|---------------|--------------|
|  | 2006                        | 2005         | 2006                              | 2005       | 2006                           | 2005     | 2006          | 2005         |
|  | \$                          | \$           | \$                                | \$         | \$                             | \$       | \$            | \$           |
| <b>Non-executive directors</b>           |                             |              |                                   |            |                                |          |               |              |
| B.D. Burrell *                           | 7,733                       | -            | -                                 | -          | -                              | -        | 7,733         | -            |
| D. Barwick *                             | 5,290                       | -            | -                                 | -          | -                              | -        | 5,290         | -            |
| M.G. Hanrahan **                         | 12,000                      | 4,000        | 540                               | 360        | -                              | -        | 12,540        | 4,360        |
| K.S. Tang                                | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| A. Yap                                   | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| W.C. Chiang                              | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| K.K. Hong                                | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| L.S. Wong                                | -                           | 4,000        | -                                 | -          | -                              | -        | -             | 4,000        |
| A. Khoo                                  | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| S.M.L. Chui                              | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| <b>Sub-total non-executive directors</b> | <b>25,023</b>               | <b>8,000</b> | <b>540</b>                        | <b>360</b> | <b>-</b>                       | <b>-</b> | <b>25,563</b> | <b>8,360</b> |
| <b>Executive directors</b>               |                             |              |                                   |            |                                |          |               |              |
| D.L. Gallegos *                          | 42,903                      | -            | -                                 | -          | -                              | -        | 42,903        | -            |
| <b>Other key management personnel</b>    |                             |              |                                   |            |                                |          |               |              |
| R.R. Daniel                              | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| G.A. McRobert                            | -                           | -            | -                                 | -          | -                              | -        | -             | -            |
| <b>Sub-total executive KMP</b>           | <b>42,903</b>               | <b>-</b>     | <b>-</b>                          | <b>-</b>   | <b>-</b>                       | <b>-</b> | <b>42,903</b> | <b>-</b>     |
| <b>Totals</b>                            | <b>67,926</b>               | <b>8,000</b> | <b>540</b>                        | <b>360</b> | <b>-</b>                       | <b>-</b> | <b>68,466</b> | <b>8,360</b> |

\* - These fees were accrued at balance date and approved by a meeting of shareholders held 23 January 2007. At that meeting shareholders effectively approved monthly directors fees backdated to their date of appointment for Dean Gallegos \$10,000 (plus GST), David Barwick \$2,000 (plus GST) and Bruce Burrell \$2,000 (plus GST).

\*\* - Contains an accrual of \$6,000 for fees that were approved by a meeting of shareholders held 23 January 2007. At that meeting shareholders effectively approved monthly directors fees of \$2,000, backdated to 1 October 2006 for Martin Hanrahan.

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### DIRECTORS' MEETINGS

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

|                                     | <b>Directors'<br/>Meetings</b> | <b>Audit<br/>Committee<br/>Meetings</b> | <b>Nomination<br/>Committee<br/>Meetings</b> | <b>Remuneration<br/>Committee<br/>Meetings</b> |
|-------------------------------------|--------------------------------|---|--|--|
| <b>Number of meetings held:</b>     | 2                              | 1                                       | -  | -  |
| <b>Number of meetings attended:</b> |                                |   |  |  |
| D.L. Gallegos                       | -                              | -                                       | -  | -  |
| B.D. Burrell                        | -                              | -                                       | -  | -  |
| D. Barwick                          | -                              | -                                       | -  | -  |
| M.G. Hanrahan                       | 2                              | 1                                       | -  | -  |
| K.S. Tang                           | 2                              | 1                                       | -  | -  |
| W.C. Chiang                         | -                              | -                                       | -  | -  |
| K.K. Hong                           | -                              | -                                       | -  | -  |
| L.S. Wong                           | 2                              | 1                                       | -  | -  |
| A. Khoo                             | -                              | -                                       | -  | -  |
| S. Chui (Alternate)                 | -                              | -                                       | -  | -  |

**Note:** Attendance at meetings includes attendance via tele-conferencing as permitted by the Company's constitution.

### COMMITTEE MEMBERSHIP

The Company would normally have an Audit Committee, a Remuneration Committee and a Nomination Committee, however with the resignation of Martin Hanrahan as a director on 29 January 2007, at the time of this report these committees had been suspended and their duties were being carried out directly by the Board. This position will be reviewed once additional directors are appointed to the Board. Further details are included in the corporate governance statement on page 38.

### CORPORATE GOVERNANCE

In recognising the need for the high standards of corporate behaviour and accountability, the directors of Morning Star Holdings (Australia) Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of this annual report.

### TAX CONSOLIDATION

For the purpose of income taxation, Morning Star Holdings (Australia) Limited and its 100% owned subsidiaries have formed a tax consolidated group. The consolidation was effective from the tax year commencing 1 January 2004. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The company is committed to ensuring that all its business is conducted in a way that reflects an environmentally responsible organisation and is of the opinion that it has performed satisfactorily in complying with its environmental obligations.

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the Auditor's Independence Declaration from the auditor of Morning Star Holdings (Australia) Limited and this is presented within the Directors' Report on page 9.

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)



■ Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000  
Australia

■ Tel 61 3 9268 8000  
Fax 61 3 8650 7777

GPO Box 67  
Melbourne VIC 3001

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

In relation to our audit of the financial report of Morning Star Holdings (Australia) Limited for the financial year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

A handwritten signature in black ink, appearing to read "Ernst & Young".

Ernst & Young

A handwritten signature in black ink, appearing to read "Tim Wallace".

Tim Wallace  
Partner  
Melbourne  
28 March 2007

# Morning Star Holdings (Australia) Limited

## DIRECTORS' REPORT (Cont'd)

### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES (cont'd)

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

|                            |          |
|----------------------------|----------|
| Tax compliance services    | \$9,500  |
| Assurance related services | \$15,040 |

Signed in accordance with a resolution of the directors.



**Dean L Gallegos**  
**Chairman**

**28 March 2007**

# Morning Star Holdings (Australia) Limited

## BALANCE SHEET AS AT 31 DECEMBER 2006

|                                      | NOTES | CONSOLIDATED |            | PARENT     |            |
|--------------------------------------|-------|--------------|------------|------------|------------|
|                                      |       | 2006<br>\$   | 2005<br>\$ | 2006<br>\$ | 2005<br>\$ |
| <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     |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL CURRENT ASSETS</b>          |       | 2,670,117    | 2,662,954  | 2,670,117  | 1,758,878  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <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     |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL NON-CURRENT ASSETS</b>      |       | 32,939       | 66,990     | 32,939     | 1,165,042  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL ASSETS</b>                  |       | 2,703,056    | 2,729,944  | 2,703,056  | 2,923,920  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <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     | -          |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL CURRENT LIABILITIES</b>     |       | 128,106      | 48,720     | 128,106    | 26,881     |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>NON-CURRENT LIABILITIES</b>       |       |              |            |            |            |
| Deferred tax liabilities             | 4     | -            | 1,380      | -          | 1,380      |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |       | -            | 1,380      | -          | 1,380      |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL LIABILITIES</b>             |       | 128,106      | 50,100     | 128,106    | 28,261     |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>NET ASSETS</b>                    |       | 2,574,950    | 2,679,844  | 2,574,950  | 2,895,659  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <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  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| <b>TOTAL EQUITY</b>                  |       | 2,574,950    | 2,679,844  | 2,574,950  | 2,895,659  |
|                                      |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |

# Morning Star Holdings (Australia) Limited

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

|  | NOTES | CONSOLIDATED     |              | PARENT           |                 |
|--|-------|------------------|--------------|------------------|-----------------|
|  |       | 2006<br>\$       | 2005<br>\$   | 2006<br>\$       | 2005<br>\$      |
| <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    | <u>(104,894)</u> | <u>6,040</u> | <u>(320,709)</u> | <u>(14,455)</u> |
| 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<br>\$   | 2005<br>\$ | 2006<br>\$ | 2005<br>\$ |
| <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  |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>      | 19(b) | 2,626,488    | 2,631,909  | 2,626,488  | 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<br/>Capital<br/>\$</b> | <b>Retained<br/>Earnings<br/>\$</b> | <b>Total<br/>\$</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 28 March 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.

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

### 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 early 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 and 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 only 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<br>\$    | 2005<br>\$   | 2006<br>\$       | 2005<br>\$   |
| 3. REVENUES AND EXPENSES                                |       |               |              |                  |              |
| <i>Revenues and Expenses from Continuing Operations</i> |       |               |              |                  |              |
| (a) Other income  |       |               |              |                  |              |
| 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>     |
| (b) Directors fees and other benefits expense           |       |               |              |                  |              |
| 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> |

(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> |

(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<br>\$      | 2005<br>\$      | 2006<br>\$       | 2005<br>\$      |
| <b>4. INCOME TAX</b>   |                 |                 |                  |                 |
| <b>(a) Income tax expense</b>  |                 |                 |                  |                 |
| The major components of income tax expense are:  |                 |                 |                  |                 |
| <b>Income Statement</b>  |                 |                 |                  |                 |
| <i>Current income tax:</i>   |                 |                 |                  |                 |
| 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)        |
| <i>Deferred income tax</i>   |                 |                 |                  |                 |
| 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  | <u>43,923</u>   | <u>(28,093)</u> | <u>43,923</u>    | <u>(28,093)</u> |
| <b>(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate.</b> |                 |                 |                  |                 |
| 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  | <u>(60,971)</u> | <u>(22,053)</u> | <u>(276,786)</u> | <u>(42,548)</u> |
| 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   | <u>43,923</u>   | <u>(28,093)</u> | <u>43,923</u>    | <u>(28,093)</u> |

# Morning Star Holdings (Australia) Limited

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

|   | NOTES | BALANCE SHEET |            | INCOME STATEMENT |            |
|---|-------|---------------|------------|------------------|------------|
|   |       | 2006<br>\$    | 2005<br>\$ | 2006<br>\$       | 2005<br>\$ |
| 4. INCOME TAX (cont'd)  |       |               |            |                  |            |
| (c) Recognised deferred tax assets and liabilities                |       |               |            |                  |            |
| Deferred income tax at 31 December 2006 relates to the following: |       |               |            |                  |            |
| CONSOLIDATED & PARENT   |       |               |            |                  |            |
| Deferred tax liabilities  |       |               |            |                  |            |
| Unrealised interest income  |       | 0             | 1,380      | (1,380)          | (282)      |
| Deferred tax assets   |       |               |            |                  |            |
| Non allowable accrued expenses                                    |       | 32,939        | 14,430     | (18,509)         | (3,746)    |
| Under franked dividend tax from prior years                       |       | -             | 52,560     | -                | -          |
| Gross deferred income tax assets                                  |       | 32,939        | 66,990     |                  |            |
| Deferred tax income/(expense)                                     |       |               |            | (19,889)         | (4,028)    |

|   |      | CONSOLIDATED |         | PARENT |         |
|---|------|--------------|---------|--------|---------|
|   |      | 2006         | 2005    | 2006   | 2005    |
|   |      | \$           | \$      | \$     | \$      |
| <b>(d) Income tax payable</b>           |      |              |         |        |         |
| Current income tax payable/(refundable) | d(i) | 11,252       | (8,347) | 11,252 | (8,347) |

(i) 2005 tax refundable disclosed under Trade and Other Receivables. Refer note 6.

### (e) Income tax losses

|  |  |   |       |   |       |
|--|--|---|-------|---|-------|
| Deferred tax assets arising from tax losses of a controlled entity not recognised at reporting date. |  | - | 7,245 | - | 7,245 |
|--|--|---|-------|---|-------|



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

## 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 |    | -        | -        | -        | 1,098,032        |
|                          |    | <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 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 Share Purchase Plan (SPP) of 8,333,333 shares to raise up to \$500,000. Applications were received for an additional 6,316,607 shares for \$379,000 under the SPP which were accepted by the Board to assist with shareholder spread requirements. 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<br>\$   | 2005<br>\$ | 2006<br>\$ | 2005<br>\$ |
| <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)   |
|   |       | <hr/>        | <hr/>      | <hr/>      | <hr/>      |
| Balance 31 December 2006                        |       | 1,599,950    | 1,704,844  | 1,599,950  | 1,920,659  |

## 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 18 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<br>01 Jan 06 | Granted as<br>Remuneration | On Exercise of<br>Options | Net Change<br>Other | Balance<br>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   |
|   |       | \$           | \$     | \$     | \$     |
| 16. AUDITORS' REMUNERATION  |       |              |        |        |        |
| 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  |
|   |       | <hr/>        | <hr/>  | <hr/>  | <hr/>  |
|   |       | 43,540       | 32,567 | 39,667 | 16,507 |

## 17. RELATED PARTY DISCLOSURE

### (a) Subsidiaries

| Name  | Place of Incorp. | Class of Shares | Investment |            | Percentage of Equity Interest |           | Contribution to Profit/(Loss) |              |
|---|------------------|-----------------|------------|------------|-------------------------------|-----------|-------------------------------|--------------|
|   |                  |                 | 2006<br>\$ | 2005<br>\$ | 2006<br>%                     | 2005<br>% | 2006<br>\$                    | 2005<br>\$   |
| - 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 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.

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<br>\$ | 2005<br>\$ |
|--|------------|------------|
| 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>(i) Financial assets</i>       |                        |           |                                  |         |                   |         |                   |         |                      |         |  |           |  |        |
| Cash and cash equivalents         | 2,626,488              | 2,631,909 | -                                | -       | -                 | -       | -                 | -       | -                    | -       | 2,626,488                                      | 2,631,909 | 5.86                                     | 5.42   |
| Trade and other receivables       | -                      | -         | -                                | -       | -                 | -       | -                 | -       | -                    | 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 |  |        |
| <i>(ii) Financial liabilities</i> |                        |           |                                  |         |                   |         |                   |         |                      |         |  |           |  |        |
| Trade and other payables          | -                      | -         | -                                | -       | -                 | -       | -                 | -       | 116,854              | 48,720  | 116,854  | 48,720    | N/A                                      | N/A    |
| Total financial liabilities       | -                      | -         | -                                | -       | -                 | -       | -                 | -       | 116,854              | 48,720  | 116,854  | 48,720    |  |        |

# 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.

# Morning Star Holdings (Australia) Limited

## DIRECTORS' DECLARATION

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

- (1) In the opinion of the directors:
  - (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial period ending 31 December 2006.

On behalf of the Board



**Dean L Gallegos**  
**Chairman**

**28 March 2007**

# Morning Star Holdings (Australia) Limited



■ Ernst & Young Building  
8 Exhibition Street  
Melbourne VIC 3000  
Australia

■ Tel 61 3 9288 8000  
Fax 61 3 8650 7777

GPO Box 67  
Melbourne VIC 3001

## Independent audit report to members of Morning Star Holdings (Australia) Limited

### Scope

#### *The financial report and directors responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Morning Star Holdings (Australia) Limited (the company), for the year ended 31 December 2006.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

## Morning Star Holdings (Australia) Limited

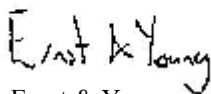
### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

In our opinion:

1. the financial report of Morning Star Holdings (Australia) Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Morning Star Holdings (Australia) Limited at 31 December 2006 and of its performance for the year ended on that date; and
    - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
  - (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Tim Wallace  
Partner  
Melbourne  
28 March 2007

# Morning Star Holdings (Australia) Limited

## AUSTRALIAN STOCK EXCHANGE LIMITED ADDITIONAL INFORMATION 31 DECEMBER 2006

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 15 March 2007.

### (a) Distribution of equity securities

#### (i) Ordinary share capital

164,995,777 fully paid ordinary shares are held by 633 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

#### (ii) Changes to the ordinary share capital which at 31 December 2006 was 67,012,504 fully paid shares.

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:

- Share Placement of 83,333,333 shares at an issue price of \$0.06 to raise \$5.0 million; and
- Shareholders Share Purchase Plan (SPP) of 8,333,333 shares to raise up to \$500,000. Applications were received for an additional 6,316,607 shares for \$379,000 under the SPP which were accepted by the Board.

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.

The number of shareholders, by size of holding, in each class of share are:

|   |    |          | Ordinary Shares   |                  |
|---|----|----------|-------------------|------------------|
|   |    |          | Number of Holders | Number of Shares |
| 1   | -- | 1,000    | 259               | 123,602          |
| 1,001   | -- | 5,000    | 65                | 148,806          |
| 5,001   | -- | 10,000   | 4                 | 30,000           |
| 10,001  | -- | 100,000  | 110               | 8,051,092        |
| 100,001   |    | And over | 195               | 156,642,277      |
|   |    |          | 633               | 164,995,777      |
| The number of shareholders holding less than a marketable parcel of shares are: |    |          | 327               | 292,408          |

### Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

### (b) Substantial shareholders

| Name             | Number of shares | Percentage of ordinary shares |
|------------------|------------------|-------------------------------|
| Roscious Pty Ltd | 9,100,000        | 5.52                          |
| Berpaid Pty Ltd  | 9,000,000        | 5.45                          |
|                  | 18,100,000       | 10.97                         |

# Morning Star Holdings (Australia) Limited

## AUSTRALIAN STOCK EXCHANGE LIMITED (Cont'd)

### ADDITIONAL INFORMATION

31 DECEMBER 2006

#### (c) Twenty largest shareholders

The names of the twenty largest holders of quoted shares are:

|    |  | Listed ordinary shares |                                  |
|----|--|------------------------|----------------------------------|
|    |  | Number of<br>shares    | Percentage of<br>ordinary shares |
| 1  | Roscious Pty Ltd   | 9,100,000              | 5.52                             |
| 2  | Repaid Pty Ltd   | 9,000,000              | 5.45                             |
| 3  | Mr Earl Evans & Mrs Katie Alexandra Evans                  | 7,500,000              | 4.55                             |
| 4  | Mrs Maria Fyfe   | 6,133,333              | 3.72                             |
| 5  | Zero Nominees Pty Ltd                                      | 5,950,533              | 3.61                             |
| 6  | Ouro Pty Ltd   | 5,000,000              | 3.03                             |
| 7  | Sayers Investments (Act) Pty Limited                       | 5,000,000              | 3.03                             |
| 8  | Indi Holdings Pty Ltd                                      | 4,866,667              | 2.95                             |
| 9  | Eke Holdings Pty Ltd                                       | 4,300,000              | 2.61                             |
| 10 | Fairy Security Pty Ltd                                     | 4,100,000              | 2.48                             |
| 11 | Number 7 Investments Pty Ltd                               | 3,500,000              | 2.12                             |
| 12 | Mr Anthony Casey Wilson                                    | 3,125,000              | 1.89                             |
| 13 | Removale Pty Ltd   | 3,005,804              | 1.82                             |
| 14 | First Apollo Capital Limited                               | 2,400,000              | 1.45                             |
| 15 | RBC Dexia Investor Services Australia Nominees Pty Limited | 2,400,000              | 1.45                             |
| 16 | Alexanda Resources Pty Ltd                                 | 2,110,000              | 1.28                             |
| 17 | Picnic Point Development Venture Pty Ltd                   | 2,000,000              | 1.21                             |
| 18 | Corridor Nominees Pty Ltd                                  | 1,700,000              | 1.03                             |
| 19 | Mr Martyn Roger Brown                                      | 1,666,666              | 1.01                             |
| 20 | Menzies Limited  | 1,666,666              | 1.01                             |
|    |  | <hr/>                  |                                  |
|    |  | 84,524,669             | 51.22                            |
|    |  | <hr/>                  |                                  |

# Morning Star Holdings (Australia) Limited

## CORPORATE GOVERNANCE STATEMENT 31 DECEMBER 2006

The Board of directors of Morning Star Holdings (Australia) Limited is responsible for the corporate governance of the Group. The Board guides and monitors the business and affairs of Morning Star Holdings (Australia) Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Morning Star Holdings (Australia) Limited's corporate governance practices were in place throughout the year ended 31 December 2006.

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### Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of Morning Star Holdings (Australia) Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Morning Star Holdings (Australia) Limited are considered to be independent:

| Name         | Position               | Name       | Position                |
|--------------|------------------------|------------|-------------------------|
| B.D. Burrell | Non-Executive Director | D. Barwick | Non- Executive Director |

There are procedures in place, agreed by the board, to enable directors, in furtherance of their duties, to seek independent professional advice at the Company's expense.

The term in office held by each director in office at the date of this report is as follows:

| Name          | Term in office              | Name         | Term in office               |
|---------------|-----------------------------|--------------|------------------------------|
| D.L. Gallegos | (Appointed 23 August 2006)  | B.D. Burrell | (Appointed 5 September 2006) |
| D. Barwick    | (Appointed 12 October 2006) |              |                              |

---

### Nomination Committee

The Board has established a nomination committee to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The nomination committee comprises three non-executive directors. The nomination committee comprised the following members throughout the year:

|               |                             |
|---------------|-----------------------------|
| M.G. Hanrahan | (Resigned 29 January 2007)  |
| K.S. Tang     | (Resigned 5 September 2006) |
| K.K. Hong     | (Resigned 3 August 2006)    |

For details of directors' attendance at meetings of the nomination committee, refer to the Directors' Report.

With the resignation of Martin Hanrahan as a director on 29 January 2007, leaving three (3) remaining directors, at the time of this report, this committee had been suspended and its duties were being carried out directly by the Board. This position will be reviewed once additional directors are appointed to the Board.

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### Performance

The performance of the board is reviewed regularly against both measurable and qualitative indicators. The performance criteria against which directors are assessed is aligned with the financial and non-financial objectives of Morning Star Holdings (Australia) Limited. Directors whose performance is consistently unsatisfactory may be asked to retire.

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# Morning Star Holdings (Australia) Limited

## CORPORATE GOVERNANCE STATEMENT (Cont'd)

31 DECEMBER 2006

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### Audit Committee

The Board has established an audit committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards to the audit committee.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of the audit committee during the year were:

|               |                             |
|---------------|-----------------------------|
| L.S. Wong     | (Resigned 23 August 2006)   |
| D.L. Gallegos | (Appointed 23 August 2006)  |
| K.S. Tang     | (Resigned 5 September 2006) |
| M.G. Hanrahan | (Resigned 29 January 2007)  |

#### *Qualifications of audit committee members*

Mr. Lock Seng WONG (BE, MEngSc.) Mr. Wong holds a Master of Engineering Science and was previously a University Lecturer. He is currently Managing Director of a proprietary company, which is involved in investment and property management. Mr Wong resigned from the Board on 23 August 2006.

Mr. Kim Siw TANG. Mr Tang is the Executive Director of MUI properties Berhad. He also serves as Executive Director of Corus Hotels – Asia Pacific Region and Group Communications for the MUI Group. He had previously served as President of two international companies involved in property development and investment. Mr Tang resigned from the Board on 5 September 2006.

Mr. Martin Gerard HANRAHAN (B.Ec, CA.) Mr. Hanrahan is a Chartered Accountant and Merchant Banker. He is the Co-Head, Mergers & Acquisitions, and Executive Director, Corporate Finance of ANZ Investment Bank and has extensive experience in the provision of corporate financial advice particularly relating to mergers and acquisitions and capital raisings. Mr Hanrahan resigned from the Board on 29 January 2007.

Mr Dean Lloyd GALLEGOS. Mr. Gallegos has 14 years experience in the finance industry. In 1995 he was one of the founders of the Barton Capital group of companies, an investment banking stockbroking and corporate advisory firm. Mr Gallegos specialises in advising both public and private companies on acquisitions, mergers, capital raisings and balance sheet restructuring. He has also managed a significant number of initial public offerings and secondary market capital raisings for public and private companies and has been actively involved in due diligence investigations, prospectus drafting and marketing of capital raisings. He is currently the Chairman of Verus Investments Limited, a company listed on the ASX. Mr Gallegos was appointed to the Board 23 August 2006.

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, refer to the Directors' Report.

With the resignation of Martin Hanrahan as a director on 29 January 2007, leaving three (3) remaining directors, at the time of this report, this committee had been suspended and its duties were being carried out directly by the Board. This position will be reviewed once additional directors are appointed to the Board.

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### Remuneration

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves. The Board has established a remuneration committee. Members of the remuneration committee throughout the year were:

|               |                             |
|---------------|-----------------------------|
| M.G. Hanrahan | (Resigned 29 January 2007)  |
| D.L. Gallegos | (Appointed 23 August 2006)  |
| K.S. Tang     | (Resigned 5 September 2006) |
| K.K. Hong     | (Resigned 3 August 2006)    |

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, refer to the Directors' Report.

With the resignation of Martin Hanrahan as a director on 29 January 2007, leaving three (3) remaining directors, at the time of this report, this committee had been suspended and its duties were being carried out directly by the Board. This position will be reviewed once additional directors are appointed to the Board.