

# Morning Star Holdings (Australia) Limited

ABN 98 008 124 025

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ASX/Media release

1 August 2008

## Update on Reinstatement to Trading and Acquisition of Alumicor

Following Morning Star Holdings (Australia) Limited's (**Morning Star** or the **Company**) announcement of the results of its General Meeting on 18 July 2008, the Company is pleased to advise that the Information Memorandum, one of the documents necessary for reinstatement to trading has been lodged with ASX today. Please find attached a copy of the Information Memorandum.

Completion is progressing under the Sale Agreement to acquire an effective 74% interest in the share capital of Alumicor SA Holdings (Pty) Ltd and the Company is hoping to complete the acquisition on or around 6 August 2008, after completion of the 1:2 Capital Consolidation.

As previously announced, the Company anticipates satisfying the ASX re-listing requirements on or about the middle of August.

The Directors of Morning Star are also pleased to announce that Mr Richard David Rossiter will be appointed as Managing Director upon recommencement of trading in the Company's share capital on ASX. Mr Rossiter is currently a Non Executive Director of the Company and was appointed to the Board on 30 August 2007.

Given his current role with the Company, the appointment of Mr Rossiter as Managing Director will provide an important level of continuity at operational and Board level, and provide an excellent foundation for the next phase of development.

Yours sincerely



**Dean L Gallegos**  
Chairman

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

ACN 008 124 025

**Information Memorandum**

## Corporate Directory

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### Directors

Dean Lloyd Gallegos  
Bruce David Burrell  
Richard David Rossiter  
Grant Michael Button

### Proposed Director

Clive Sinclair Poulton

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### Solicitors

Clayton Utz  
Level 25, QVI Building  
250 St Georges Tce  
PERTH WA 6000

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### Company Secretary

Dean Lloyd Gallegos

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### Independent Accountant

HLB Mann Judd  
15 Rheola Street  
WEST PERTH WA 6005

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### Registered Office

Level 15  
25 Bligh Street  
SYDNEY NSW 2000

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### Auditors

Ernst & Young  
680 George Street  
SYDNEY NSW 2000

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### Website

[www.msh.net.au](http://www.msh.net.au)

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### Share Registry

Computershare Investor Services Pty Limited  
Level 2, Reserve Bank Building  
45 St Georges Tce  
PERTH WA 6000

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# **Important Information**

## **Purpose of Information Memorandum**

This document is not a prospectus lodged with the ASIC under the Corporations Act.

This Information Memorandum is provided to satisfy Condition 3 of Listing Rule 1.1, which requires Morning Star to produce a prospectus or information memorandum to satisfy the admission requirements in chapter 1 of the Listing Rules.

This document does not constitute or contain any offer of securities for subscription or purchase or any invitation to subscribe for or buy securities.

## **ASX Listing**

The Company is admitted to the Official List of ASX. However, pursuant to the requirements of Listing Rule 11.1.3, it must meet the ASX admission requirements for trading in the Shares to recommence on ASX. Application will be made to the ASX on or about the date of this Information Memorandum for recommencement of trading in the Shares on ASX.

A copy of this Information Memorandum has been lodged with ASX. Neither ASIC nor the ASX accepts responsibility for any statement in this Information Memorandum.

The fact that the Company is admitted to the Official List of ASX and that ASX may permit the recommencement of trading in Shares on ASX is not to be taken, in any way, as an indication of the merits of the Company.

This Information Memorandum contains all the information which would have been required under section 710 of the Corporations Act if the Information Memorandum were a prospectus offering for subscription the same number of Shares for which recommencement of trading will be sought.

## **Supplementary Information Memorandum**

The Company will issue a Supplementary Information Memorandum if it becomes aware of any of the following between the date of this Information Memorandum and the date the Shares are granted official quotation:

- a material statement in this Information Memorandum is misleading or deceptive;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new circumstance has arisen which would have been required to be included in this Information Memorandum if it had arisen prior to the date of this Information Memorandum.

## Chairman's Letter

1 August 2008

Dear Shareholder

On 19 May 2008, the Company announced that it had entered into agreements to acquire all of the shares in Alumicor held by Sorrel for a total consideration of R32,022,736 and subsequently sell 26% of those shares to African Dune for R8 million (**Proposed Transaction**).

At the General Meeting of the Company, held on 18 July 2008, the Shareholders approved the Proposed Transaction. As the acquisition of Alumicor constitutes a significant change to the nature of the Company's activities, ASX requires compliance with chapters 1 and 2 of the Listing Rules, in addition to the approval of Shareholders of the change of activities. The primary purpose for issuing this Information Memorandum is to comply with those requirements.

The acquisition of Alumicor provides the Company with an established cash generative business in the metals extraction sector. The China-driven increase in demand for metals has resulted in many previously uneconomic waste products becoming valuable resources that can be turned to account in a relatively short time and with limited capital expenditure. This, together with management's track record and the relatively unique business model of establishing site-dedicated treatment facilities, enhances the Company's ability to pursue similar business opportunities in Australia and also internationally.

The Company will initially focus on consolidating and optimising the Alumicor business. In parallel, expansion opportunities for similar businesses in Australia and elsewhere will be sought and progressed. Longer term the Company will seek further value adding opportunities in the metals extraction and resource sectors.

Alumicor's business is subject to a number of risk factors including, but not limited to, the metals industry performance; the reliance on key employees and outside parties; the Hulamin contract and relationship; environment, health and safety factors; general share, exchange rate and commodity markets and country specific factors. For a further explanation of the risks associated with an investment in the Company, please refer to section 3 of this Information Memorandum.

In accordance with the Listing Rules, on the Business Day prior to the date of the General Meeting of the Company, the Company obtained a voluntary suspension of its securities from trading on ASX until the Company satisfied all conditions required by ASX and the Listing Rules. The Company will comply with all of the ASX's requirements to facilitate the reinstatement of the Company's Shares to quotation on the Official List.

Completion of the Proposed Transaction will be a significant change in direction for the Company and the Directors believe it will provide an excellent foundation for future corporate growth and increased Shareholder value.

Yours faithfully

**Dean Lloyd Gallegos**  
**Chairman**

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## **1. Overview of Morning Star**

### **1.1 Incorporation**

The Company was incorporated on 30 January 1987 as a public listed company limited by shares. The Company listed on ASX on 16 November 1989 and changed its name to Morning Star Holdings (Australia) Limited on 4 July 1991.

### **1.2 Background**

The only assets of the Company are currently cash and cash equivalents, which are held in interest bearing deposits. As announced to Shareholders, the Company has evaluated a number of opportunities and as a result has entered into the Sale Agreement with Sorrel pursuant to which the Company will acquire Alumicor. Further details of the Proposed Transaction are set out in Section 2.

The acquisition of Alumicor constitutes a significant change to the nature of the Company's activities.

The Company has obtained Shareholder approval of the change of activities and the Proposed Transaction at the General Meeting held on 18 July 2008.

### **1.3 Suspension of Shares**

In accordance with chapter 11 of the Listing Rules, on the business day prior to the date of the General Meeting of the Company, the Company obtained a voluntary suspension of its securities from trading on ASX until the Company has complied with chapters 1 and 2 of the Listing Rules. This Information Memorandum is being issued to satisfy condition 3 of Listing Rule 1.1.

### **1.4 Board Composition**

#### **Dean Lloyd Gallegos**

Mr Gallegos has 15 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 in 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 raising 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
- Buccanner Energy Limited - Appointed July 2007
- Global Approach Limited - Appointed August 2007
- InterCoal Limited - Resigned July 2006
- Crescent Gold Limited - Resigned March 2005

### **Richard David Rossiter**

Mr Rossiter is currently a Non Executive Director of the Company and was appointed to the Board on 30 August 2007. Upon recommencement of trading in the Shares on ASX Mr Rossiter will be Managing Director of the Company. Mr Rossiter began his career as a geologist with General Mining Union Corporation in South Africa. He subsequently qualified in mine management and held various production management and business development roles. Mr Rossiter joined the financial sector as a mining analyst with Fleming Martin and then moved to Australia as head of resource sector research at Macquarie Bank and JP Morgan. He was more recently responsible for corporate advisory, mergers and acquisitions and divestments at Pacific Road Corporate Finance and Standard Bank Plc (Australia). Mr Rossiter holds a Bachelor of Science (Hons) in Geology from the University of Natal and a Msc in Mineral Exploration from Rhodes University in South Africa. Mr Rossiter also serves as a director of ASX listed Sylvania Resources Limited, having been appointed to the board in August 2007.

### **Grant Michael Button**

Mr Button is a Non Executive Director of the Company and was appointed to the Board on 30 August 2007. Mr Button has over 15 years experience at senior management level in the resource industry. He has acted as an executive director, finance director, CEO, CFO and company secretary of a range of publicly listed companies. Mr Button was appointed Chairman of Alamar Resources Limited in July 2008. During the past three years, Mr Button has also served as a director of the following other listed companies:

- Washington Resources Limited - Appointed March 2005
- Magnum Mining & Exploration Limited - Appointed February 2006
- Sylvania Resources Limited - Resigned June 2007
- Alamar Resources Limited - Appointed April 2008

### **Bruce Burrell**

Mr Burrell is a Non Executive Director of the Company 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 - Resigned November 2007

### **Proposed Director**

#### **Clive Sinclair-Poulton**

Mr Sinclair-Poulton studied law at Cambridge University graduating in 1978, before starting a twenty year career in investment banking in London with Citibank and Security Pacific (now Bank of America) as well as stockbroker Hoare Govett. After founding and then selling a stockbroking firm, he became a founding shareholder and executive chairman of the AIM - traded themutual.net (AIM:TMN). He has been involved in natural resources for 15 years. Most recently, Mr Sinclair-Poulton was a founding member of Tanzania Gold Ltd which, following a reverse take-over, was first renamed Tanzania Gold plc then Bezant Resources plc. Mr Sinclair-Poulton was appointed a director of Tanzania Gold plc (now



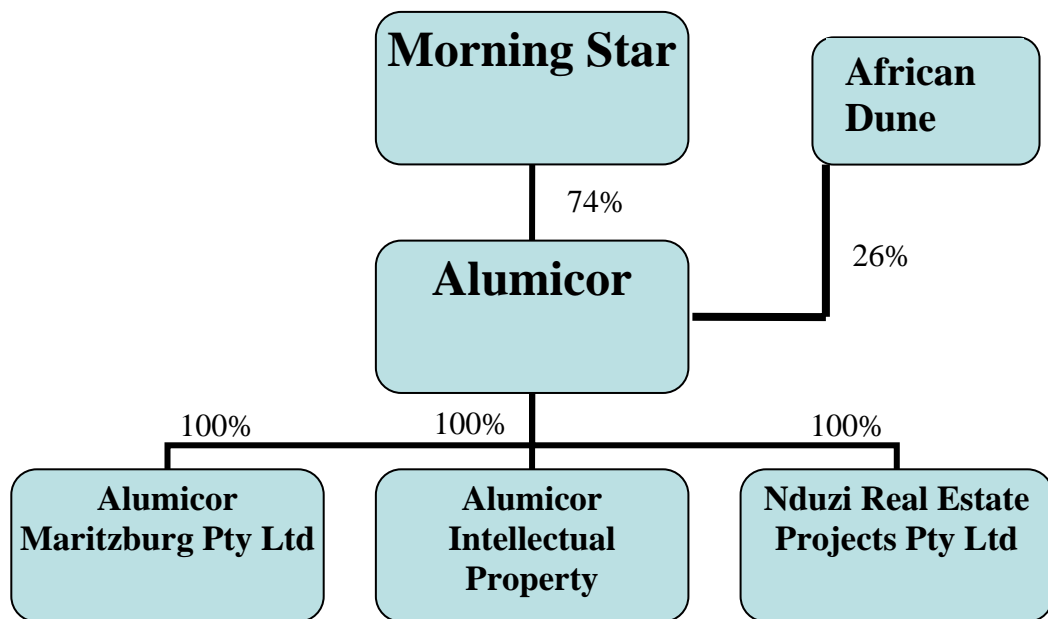
Bezant Resources plc) in September 2006 and was CEO of Bezant Resources plc (AIM:BZT) with copper and gold assets in Tanzania and the Philippines until he stepped down in February 2008. He continues to have a consulting role with Bezant Resources.

## 1.5 Change in Activities

The Proposed Transaction will constitute a change in the Company's activities. The Company has obtained a voluntary suspension from trading of its securities on ASX effective from the business day prior to the date of the General Meeting.

## 1.6 Corporate structure

The Company's corporate structure upon completion of the Proposed Transaction is represented below.



## 1.7 Capital structure

The following table sets out the capital structure of the Company as at the date of this Information Memorandum and after completion of the Capital Consolidation, the Proposed Transaction and the issue of securities approved by Shareholders at the General Meeting:

	Shares	Options
Current	182,295,777	-
After Consolidation on a 2:1 basis	91,147,924	-
After completion of Proposed Transaction	102,457,809	-
After issue of securities approved at General Meeting	104,707,809 <sup>1</sup>	1,650,000 <sup>1</sup>

<sup>1</sup> Shareholder approval for the issue of these securities has been obtained at the General Meeting. The securities will be issued following completion of the Capital Consolidation.

## **1.8 No capital raisings**

Morning Star has not raised any capital for three months before the date of issue of the Information Memorandum and will not need to raise any capital for three months after that date or for three months after the date of recommencement of trading of its Shares on ASX.

## **1.9 Working capital**

Morning Star has enough working capital to carry out its stated objectives.

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## 2. The Alumicor Transaction

### 2.1 Business overview of Alumicor

Alumicor is registered in South Africa and is the holding company of the following South African companies:

- (a) Alumicor Maritzburg (Pty) Ltd;
- (b) Alumicor Intellectual Property (Pty) Ltd; and
- (c) Nduzi Real Estate Projects (Pty) Ltd,

(together with Alumicor, the **Alumicor Companies**).

The Alumicor Companies operate an aluminium Dross and scrap re-smelting operation. Alumicor Maritzburg (Pty) Ltd operates the Dross smelting facility, Alumicor Intellectual Property (Pty) Ltd holds patents, designs and confidential knowledge with regard to the Dross smelting process and Nduzi Real Estate Projects (Pty) Ltd owns the property on which the Alumicor operations are situated.

Alumicor's business is situated in Pietermaritzburg, Kwazulu Natal, South Africa. Alumicor Maritzburg (Pty) Ltd leases the industrial property adjacent to the Hulam Limited (**Hulam**) aluminium smelter from Nduzi Real Estate Projects (Pty) Ltd and has constructed a new aluminium Dross re-smelting plant comprising three oxyfuel fired rotary tilting furnaces, baghouse and associated raw materials and waste handling facilities. The rotary tilting furnaces are capable of re-smelting up to 1400 Tons of aluminium Dross per month. Alumicor has an indefinite period contract with Hulam to treat Hulam's aluminium Dross, subject to termination upon the expiry of 6 months written notice given by either Alumicor or Hulam. Under the terms of the contract with Hulam, Hulam has an option to acquire 100% of Alumicor's business by the payment of R31,000,000 in cash after 31 January 2011. If Alumicor incurs additional capital expenditure, with Hulam's written approval, the amount payable by Hulam in respect of Alumicor's business shall increase rateably.

The Company has secured the ongoing services of the current Alumicor directors and management who will continue operating the business for at least the next three years.

The Company has also entered into the Co-operation Agreement with Sorrel, pursuant to which it is acknowledged that the Company wishes to expand its business through the identification and development of additional metal treatment projects and Sorrel has the expertise and experience to assist the Company in pursuing and negotiating further business opportunities. Under the terms of the Co-operation Agreement, Sorrel will not tender for, or enter into any agreement in, the metal treatment business other than on behalf of the Company, without the prior approval of the Company. If Sorrel assists the Company to enter into an agreement with a third party then the Company will agree appropriate compensation with Sorrel depending on the nature and scale of the project identified.

### 2.2 Proposed Transaction

If the Proposed Transaction is completed:

- (a) the Company will hold 74% of Alumicor;
- (b) African Dune, the Company's South African black economic empowerment (**BEE**) partner, will hold 26% of Alumicor;

- (c) Sorrel will hold 11,309,885 Post Completion Shares, representing 10.63% of the Shares in the Company;
- (d) the Company will pay R16,022,736 to Sorrel as consideration for the acquisition of the Loan Account; and
- (e) African Dune will owe the Company R8,000,000.

## 2.3 Consideration for Alumicor

The total consideration to be paid by the Company to Sorrel is:

- (a) 11,309,885 Post Consolidation Shares (**Acquisition Shares**) for the Alumicor Shares; and
- (b) R16,022,736 (**Acquisition Payment**) for the Loan Account.

The Acquisition Payment will be funded out of the Company's current cash reserves.

## 2.4 Key terms of Sale Agreement

The significant terms of the Sale Agreement include:

- (a) The acquisition by the Company from Sorrel of:
  - (i) the Alumicor Shares for the Acquisition Shares; and
  - (ii) the Loan Account for the Acquisition Payment; and
- (b) Acknowledgements by Sorrel and the Company that in accordance with the Share Sale and Shareholders Agreement, after completion of the acquisition of the Alumicor Shares, the Company is obliged to on-sell to African Dune 26% of the Alumicor Shares and the Company will loan to African Dune R8,000,000 to acquire these shares.

## 2.5 Dross processing

Dross is a thick liquid or solid phase that forms at the surface of molten aluminium. Aluminium can be recovered from Dross by melting the Dross in a rotary furnace. To improve recoveries, Alumicor operations add a salt flux which prevents oxidation.

To make any aluminium product by digging the aluminium ore up from the ground, purifying it, and shaping the product, takes up to 20 times more energy than making the same process from Dross and scrap aluminium. This means recovering aluminium from Dross is cost effective and lowers the overall cost of primary aluminium smelting.

## 2.6 Operations with Hulamin

Hulamin supplies Alumicor with Dross free of charge, and the process undertaken by Alumicor is the simple separation of the waste from the pure aluminium by melting the Dross. Alumicor then casts the pure aluminium metal into sows, and returns the sows to Hulamin on a toll conversion fee, related to the input weight of the Dross or scrap. The disposal of the Alumicor waste (final salt cake and oxides) was the responsibility of Hulamin, but Alumicor has constructed a hot Dross treatment plant that crushes and screens the final salt slag into three fractions, namely less than 1mm, greater than 1mm but less than 3mm and greater than 3mm. The slag that is greater than 3 mm is remelted and a sliding scale reward bonus is paid to Alumicor by Hulamin. With this process, Alumicor has now taken responsibility for the

waste treatment, enabling Alumicor to sell the slag that is less than 3mm to either the steel or cement industry.

The Alumicor operation initially commenced with two 5 Ton per cycle furnaces. More recently a 10 Ton per cycle third furnace has been commissioned. This has effectively doubled the capacity of the Alumicor operation to 1400 Tons per month.

Hulamin has constructed a road directly linking the Alumicor and Hulamin facilities. This will reduce transport costs and reduce the possibility of competition. To date Hulamin has paid for the road, however, ultimate responsibility for payment for the road is currently being negotiated between Alumicor and Hulamin. If Hulamin requests Alumicor to contribute to the payment for the road, Alumicor will endeavour to ensure that the amount paid will be considered capital expenditure for the purposes of calculating the amount payable by Hulamin in respect of Alumicor's business pursuant to the Hulamin contract.

Alumicor and Hulamin are also at an advanced stage of investigating the possibility of returning the aluminium to Hulamin in a molten state, which will represent cost savings to Hulamin and reduce competition for Alumicor.

## **2.7 Environment, safety and health**

Prior to the construction of the plant in Pietermaritzburg, Alumicor submitted a detailed Environmental Impact Assessment (**EIA**) to the KZN Department of Agricultural and Environmental Affairs, and to local authorities for approval. Alumicor received a Record of Decision (**ROD**) approving the development of the Aluminium smelter plant, and the conditions of the EIA and ROD are strictly adhered to by Alumicor.

Alumicor also submits biannual stack emission reports and to date the emissions recorded are significantly less than the permitted levels. The Alumicor plant is also subject to inspections from the local pollution officer.

Alumicor has prepared an Environmental Management Plan which has been approved by the Department of Environmental and Agricultural Affairs. Alumicor also employs the services of an environmental consultant to ensure that all regulatory requirements are met.

In relation to occupational, health and safety, Alumicor employs a full time manager and is subject to regular external audits to ensure that legal requirements are met and standards are monitored and improved.

## **2.8 Use of funds and proposed expenditure plan**

The Company's proposed expenditure plan, encompassing completion of the Proposed Transaction and existing and other financial resources, for the 12 months following the recommencement of trading of the Shares on the ASX is set out in the table below:

	\$
<i>Project Expenditure</i>	
Purchase of Alumicor	2,265,000
Scoping study	250,000
Land and buildings	1,200,000
Furnaces	1,200,000
Cranes and vehicles	800,000
Plant and bag house	800,000
Various	800,000

<b>Total</b>	<b>7,315,000</b>
<hr/>	
<i>Funding</i>	
Approximate unaudited current cash on issue	9,336,000
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<b>Total Funds Available</b>	<b>9,336,000</b>
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Unallocated Funding	2,021,000
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The Company will pay R16,022,736 in cash to Sorrel as consideration for the acquisition of Alumicor, as set out in Section 2.3.

Other than the purchase of Alumicor, the proposed expenditure detailed in the above table is subject to the Company's current investigations regarding the possible expansion of its Alumicor operations. Possible expansion may include building additional on-site Dross resmelting plants at locations within Australia. If this project is undertaken, it will entail scoping studies, travel, and the relocation of South African technical staff to Australia to further progress the planning, costing, approvals and construction activities. If investigations result in a positive outcome, it is anticipated that these activities could result in the establishment of an initial facility in Australia over the next 12 to 18 months at a cost of approximately \$5 million.

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## **3. Risks**

This section identifies the areas that are believed to be the major risks associated with an investment in the Company. Alumicor's business is subject to risk factors, both specific to its business activities and of a general nature. Individually, or in combination, these might affect the future operating performance of the Company and the value of an investment in the Company. An investment in the Company should be considered in light of all risks, both general and specific. Each of the risks set out below could, if they eventuate, have a material adverse impact on the Company's operating and financial performance.

### **3.1 Risks specific to the Company**

#### **(a) Reliance on key employees**

The future success of the Company and Alumicor depends in part upon its ability to attract and retain highly qualified technical and managerial personnel. The Company and Alumicor rely on a number of key employees and consultants. Although there are employment contracts in place and the current directors and management have three year contracts in place, there is no guarantee or assurance that the Company and Alumicor will be able to retain their services, and the loss of key employees could adversely impact on the operations of the Company and Alumicor.

#### **(b) Operational risks in South Africa**

Alumicor's business operations are located in South Africa and involve certain operational risks. The more general risks include adverse weather conditions, the effect of climate on the operations, pollution and other environmental risks.

The operations of Alumicor may be shut down or disrupted by a variety of risks and hazards which are beyond the control of Alumicor, including failure of electricity supply, exposure to LPG gas prices, environmental hazards, industrial accidents, technical failures, labour disputes and accidents. Alumicor is not heavily exposed to the possible disruption of electricity in South Africa as it does not use a large amount of electricity in its operations. Furthermore, in the event of power failure, Alumicor has generators in place to tip out the furnaces.

#### **(c) Dependence on outside parties**

Upon completion of the Proposed Transaction, one of the Company's strategies will be to form business relationships with other organisations to supply and provide Alumicor's products and services. The Company's ultimate success and financial viability depends on the global distribution of Alumicor's products and services. Although Alumicor has a relatively unique business model and is likely to generate new business, there can be no assurance that the Company will be able to attract such prospective organisations or negotiate appropriate terms and conditions with these organisations.

Failure to source and secure further service contracts for Alumicor will materially affect the business and future profitability of the Company.

#### **(d) Key relationship breakdown**

Currently, Alumicor's sole business relationship is with Hulamin and this relationship forms the basis of the Company and Alumicor's principal means of deriving revenue. The deterioration of this relationship could result in significant financial implications for the Company.

(e) **Hulamin Contract**

Under the terms of the contract with Hulamin, Hulamin has an option to acquire 100% of Alumicor's business by the payment of R31,000,000 in cash after 31 January 2011. If Hulamin exercises the option and the Company has not developed any further projects or acquired any further assets, the Company will have no assets, other than cash.

(f) **Exchange rate risks**

Any payment made under the Hulamin contract is made in South African Rand. Therefore, the Company will be subject to exchange rate risks. All costs are in South African Rand (other than LPG gas and a component in the fluxing agent, which are dollar based expenses) so there is limited exposure to the possible devaluation of the Rand against the dollar. However, Shareholder profit for those Shareholders outside of South Africa could be exposed to the Rand devaluing.

(g) **One project company**

At this stage, Alumicor has only one project, being the Dross re-smelting plant adjacent to the Hulamin aluminium smelter. Accordingly, the Company solely relies on this one project for revenue. If this project is unsuccessful, the Company does not currently have any other projects to rely on.

(h) **Occupational Health and Safety**

Site safety and occupational health and safety outcomes are a critical element in the reputation of Alumicor and the Company, and the ability to be awarded contracts in the metal processing industry. While Alumicor has a good record in achieving high quality safety performance on its sites and has implemented a safety management system, a serious site safety incident could impact upon financial outcomes for the Company.

(i) **Environmental**

Alumicor's operations are subject to laws and regulations regarding environmental matters and discharge of hazardous waste and materials. Alumicor intends to conduct its activities in an environmentally responsible manner and in accordance with applicable laws and industry standards. Areas disturbed by Alumicor's activities will be rehabilitated as required by applicable laws and regulations.

Alumicor has environmental management programs in place, that have been approved by the relevant authorities following public participation meetings.

### **3.2 Industry specific and general risks**

(a) **Industry downturn**

The Company's financial performance is sensitive to the level of demand within the resource and mining services industries. The level of activity in these industries can be cyclical and sensitive to a number of factors beyond the control of the Company. In addition, the Company may not be able to predict the timing, extent or duration of the activity cycles in these markets.

(b) **Share market conditions**

There are general risks associated with any investment in the stock market. The price of the Company's Shares will be subject to varied and often unpredictable



influences on the market for equities in general. There is a risk that the price of Shares and returns to Shareholders may be affected by the following (some of which are covered in further detail in this section):

- (i) movements on international stock markets;
- (ii) domestic and international economic and political outlook and conditions;
- (iii) levels of tax, taxation law and accounting practices;
- (iv) movements in or outlook for interest rates and inflation rates;
- (v) currency fluctuations;
- (vi) commodity supply and demand;
- (vii) changes in investor sentiment towards particular market sectors;
- (viii) actual or anticipated variations in the Company's results;
- (ix) the demand and supply for capital;
- (x) the sale of Shares in the open market in terms of volume and price fluctuation; and
- (xi) natural disasters, war, terrorism or other global hostilities and tensions.

(c) **General economic risks**

Factors such as inflation, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs, commodity prices and stock market prices. The Company's future possible revenue and Share price can be affected by these factors which are beyond the control of the Company.

(d) **Government policy**

Industry profitability can be affected by adverse changes in government policy in the countries in which the Company intends to carry out its business. These are beyond the control of the Company.

(e) **Resource price fluctuation**

The profitability of the Company's metal processing operations is dependent on the sales price for metals on the international market. Commodity prices in general are influenced by physical, speculative and investment demand. The sales price obtained for aluminium and other metals on the export market is outside the Company's direct control and the profitability of the Company may be impacted by the market sales price for the metals processed by the Company.

However, Alumicor is a toll treatment company receiving a fixed fee for treating Hulamin's raw material. As the reclamation of Aluminium is one third of the cost of primary Aluminium, it is less likely that Alumicor would be affected by a down turn in the Aluminium industry.

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## **4. Material Contracts**

### **4.1 Acquisition Agreements**

#### **(a) Sale Agreement**

The Company and Sorrel entered into a Sale Agreement on 19 May 2008 pursuant to which Sorrel agreed to sell and the Company agreed to buy:

- (i) the Alumicor Shares, in consideration for the issue to Sorrel of the Acquisition Shares; and
- (ii) the Loan Account, in consideration for payment to Sorrel of the Acquisition Payment.

Completion under the Sale Agreement will occur 1 Business Day after completion of the Capital Consolidation. Prior to Completion, the Company and Sorrel have agreed:

- (i) to enter into the Co-operation Agreement (see section 4.1(b));
- (ii) for the Company and African Dune to enter into the Loan Agreement (see section 4.2(a)); and
- (iii) for the Company and African Dune to enter into the Share Sale and Shareholders Agreement (see section 4.2(c)).

The Company and Sorrel have provided acknowledgements that in accordance with a Share Sale and Shareholders Agreement between the Company and African Dune, after completion of the Proposed Transaction, the Company is obliged to on-sell to African Dune 26% of the Alumicor Shares (in accordance with the Company's BEE obligations in South Africa).

The Company and Sorrel have also provided various warranties which are considered to be of a type usual for an agreement for the sale of shares in a company.

#### **(b) Co-operation Agreement**

The Company has entered into the Co-operation Agreement with Sorrel dated 19 May 2008. Under the terms of the Co-operation Agreement, it is acknowledged that the Company wishes to expand its business through the identification and development of additional metal treatment projects and that Sorrel has the expertise and experience to assist the Company in pursuing and negotiating further business opportunities. Sorrel agrees that it will not tender or enter into any agreement in the metal treatment business other than on behalf of the Company. If Sorrel assists the Company to enter into an agreement with a third party, then the Company will agree appropriate compensation with Sorrel depending on the nature and scale of the project identified. The Co-operation Agreement remains in full force and effect until terminated by either party by giving three months written notice.

### **4.2 African Dune Agreements**

#### **(a) Loan Agreement**

The Company and African Dune have entered into a loan agreement whereby the Company will lend African Dune R8,000,000 at commercial interest rates to acquire a 26% interest in the Alumicor Shares acquired by the Company, and the

Company will be repaid by African Dune from dividends distributed from Alumicor to African Dune.

(b) **Deed of Pledge and Cession**

The Company has entered into a Deed of Pledge and Cession with African Dune, as security for the current and future obligations African Dune has to the Company under the Loan Agreement. Under the terms of the Deed of Pledge and Cession, African Dune pledges its shares in the capital of Alumicor.

(c) **Share Sale and Shareholders Agreement**

The Company has entered into an agreement to sell a 26% interest in the share capital of Alumicor to African Dune for R8,000,0000. African Dune qualifies as a Black Person under the definition in the South African Broad Base Black Economic Empowerment Act and thus Alumicor will be BEE compliant after completion of the Proposed Transaction.

### **4.3 Alumicor Agreements**

(a) **Hulamin**

The Agreement for the Processing of Aluminium Dross between Hulamin and Alumicor dated 4 September 2006 (as amended by Addendum to Agreement for the Processing of Aluminium Dross dated 25 February 2008) provides for the recovery by Alumicor of aluminium from aluminium Dross supplied by Hulamin and for the return of the aluminium so recovered to Hulamin. The Agreement for the Processing of Aluminium Dross is an indefinite period agreement, subject to termination by either party by giving six months' written notice. However, Hulamin may also terminate the agreement if, in the opinion of Hulamin, the mass of aluminium recovered by Alumicor from Dross supplied by Hulamin is less than it should be. Hulamin must give 14 days prior written notice of its intention to terminate to Alumicor to exercise this right.

Pursuant to the Agreement for the Processing of Aluminium Dross, Alumicor has granted the following options to Hulamin:

- (i) the Business Option to purchase the business which it conducts at its Pietermaritzburg plant for the recovery of aluminium from aluminium Dross for R22,194,224;
- (ii) the Property Option to purchase the land and buildings in which the business is conducted for R5,748,168 (via Nduzi Real Estate Projects (Pty) Ltd); and
- (iii) the IP Option to purchase the Intellectual Property used by Alumicor Intellectual Property (Pty) Ltd in connection with its Pietermaritzburg business for R3,057,608 (via Alumicor Intellectual Property (Pty) Ltd).

These options may only be exercised simultaneously. Hulamin is able to exercise these options after 31 January 2011.

If Alumicor incurs additional capital expenditure the amount payable by Hulamin in respect of Alumicor's business shall increase rateably provided that Alumicor has consulted with Hulamin and obtained its agreement in writing to the specific amount by which the purchase price will be increased. If Alumicor and Hulamin are unable to agree terms in relation to future capital expenditure, there will be no change in the purchase price for the business and if Hulamin subsequently exercises

this option, Alumicor shall have the right to remove the improvements and additional plant and equipment concerned (subject to the obligation to reinstate the plant to the same working order and condition in which it was prior to the improvements).

The significant terms for payment by Hulamín to Alumicor for provision of the Dross include the following:

- (i) Hulamín has agreed to pay the conversion price of R1,875 per Ton of Dross processed exclusive of VAT for the annual period ending 31 March 2008 and for the ensuing period, subject to renegotiation. The conversion price is being renegotiated;
- (ii) Hulamín will pay Alumicor a Rand per Ton sliding scale bonus based on the aluminium recovery rate achieved by Alumicor from the Dross supplied to it by Hulamín for processing. The sliding scale rates are being renegotiated;
- (iii) If Alumicor derives a profit as a result of the sale of residues remaining after the processing of Dross (**Final Salt Dross**), such profit could be shared between Hulamín and Alumicor;
- (iv) Hulamín will pay R515 per Ton for Final Salt Dross to be disposed of in a lawful and environmentally friendly manner;
- (v) Hulamín agrees to supply 900 Tons of Dross per month to Alumicor for processing up to and including January 2011, subject to the availability of the relevant quantity of Dross produced by it and reserving the right to have Dross processed with other third parties for trial purposes;
- (vi) Alumicor warrants that it has capacity to process not less than 900 Tons of Dross each month and that its plant and the processes will comply with all legislative and environmental requirements; and
- (vii) Alumicor will not process Dross or aluminium of any type at its plant in Pietermaritzburg for anyone other than Hulamín whilst the agreement is in place, and Alumicor will be Hulamín's preferred converter in respect of the first 700 Tons of Dross produced by Hulamín in each month.

(b) **Agreement to Hire Guest House Facilities**

Alumicor has entered into an Agreement to Hire Guest House Facilities with The Marion McConnachie Family Trust dated 13 December 2007, commencing on 13 December 2006 and continuing for 9 years and 11 months. Under the terms of the Agreement to Hire Guest House Facilities, The Marion McConnachie Family Trust provides accommodation and certain services to staff members of Alumicor (up to a maximum of 20 people) at 50 Hutchinson Road, Scottsville, Pietermaritzburg for a rental payment by Alumicor of R14,000 plus Value Added Tax per month and an additional R950 plus Value Added Tax per month if the number of occupants exceeds 15 during any month (subject to a rent increase of 8% per annum)

(c) **Letters of Appointment of Mr R M McConnachie as General Manager**

Pursuant to a Letter of Appointment dated 1 November 2007, Mr R M McConnachie is appointed by Alumicor as General Manager. Mr McConnachie's duties as General Manager include ensuring the effective running of the Alumicor operations. Mr McConnachie's gross salary is R70,000 per month.

(d) **Consultancy Agreement**

Alumicor and Summer Sun Trading 210 (Pty) Ltd (**Summer Sun**) have entered into a Consultancy Agreement commencing on 1 August 2006 and continuing until 31 July 2011, subject to extension. Under the terms of the Consultancy Agreement, Summer Sun has agreed to non-exclusively provide consultancy services to Alumicor via nominated executives.

The consultancy services include:

- (i) performing a general supervisory role of the operations of Alumicor including, but not limited to, the financial management and performance of the Alumicor Companies;
- (ii) performing a general supervisory role of the aluminium smelting and Dross disposal operations of the Alumicor Companies; and
- (iii) advising Alumicor in relation to such aspects of its business and providing such services as the Alumicor board from time to time reasonably requires.

The nominated executives are engaged as independent contractors and will be Terence Michael McConnachie and Eileen Grey and/or any such other person or persons nominated in writing by Summer Sun and agreed to by Alumicor, from time to time. In consideration for the consultancy services, Alumicor pays R123,000 per month to Summer Sun. At the request of Summer Sun and with the approval of the Alumicor board, Alumicor must pay or reimburse Summer Sun for expenses properly incurred in promoting or maintaining the business or goodwill of Alumicor. These expenses must be substantiated to the reasonable satisfaction of the Alumicor board and if in excess of R10,000 must have been approved by the Alumicor board prior to being incurred.

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## 5. Independent Accountant's Report



Accountants | Business and Financial Advisers

31 July 2008

The Directors  
Morning Star Holdings (Australia) Limited  
Level 12 , 37 Bligh Street  
SYDNEY , NSW, AUSTRALIA, 2000

Dear Sirs

### INDEPENDENT ACCOUNTANT'S REPORT

#### INTRODUCTION

This Independent Accountant's Report ("Report") has been prepared for inclusion in a Information Memorandum to be dated on or about 31 July 2008 ("Information Memorandum") to be issued by Morning Star Holdings (Australia) Limited ("MSH" or the "Company").

This Report has been included in the Information Memorandum to assist current and potential investors and their financial advisers to make an assessment of the financial position of the Company.

#### STRUCTURE OF REPORT

This Report has been divided into the following sections:

1. Background information;
2. Scope of Report;
3. Financial information;
4. Subsequent events;
5. Statements; and
6. Declaration.

#### 1. BACKGROUND INFORMATION

The Company was incorporated on 30 January 1987 as Bourse Limited. It listed on the Australian Stock Exchange Limited on 16 November 1989 and changed its name to Morning Star Holdings (Australia) Limited on 13 March 1991.

The most recent audited annual financial report of the Company was lodged with the Australia Stock Exchange Limited ("ASX") on 29 February 2008. It contained an unqualified audit report.

## **1. BACKGROUND INFORMATION (CONTINUED)**

On 19 May 2008 the Company announced to the ASX that it had entered into agreements to acquire an effective 74% interest in Alumicor SA Holdings (Pty) Ltd ("Alumicor") from Sorell Enterprises Limited. Alumicor operates an aluminium dross and scrap re-smelting business through its various subsidiaries.

Under the terms of the agreement, the Company has agreed to purchase a 100% interest in Alumicor for a total consideration of South African Rand ("R") 32,022,736 (AUD \$4,514,948) comprising a cash consideration of R16,022,736 (AUD \$2,265,191) and share consideration of R16,000,000 (AUD \$2,249,757) in MSH shares. A share consolidation will precede the proposed acquisition.

MSH has also entered into an associated agreement to sell a 26% interest in Alumicor to African Dune Investments 114 (Pty) Ltd ("African Dune") for R8,000,000 (AUD \$1,120,000). MSH and African Dune have entered into a loan agreement whereby MSH will lend African Dune the R8,000,000 at commercial interest rates to be repaid by African Dune via any dividend distribution.

On 18 July 2008, shareholders voted to proceed with the acquisition of Alumicor and to the share consolidation on a 1 for 2 basis.

As at the date of this Information Memorandum, the issued share capital of the Company is 182,295,777 ordinary fully paid shares.

## **2. SCOPE OF REPORT**

You have requested HLB Mann Judd ("HLB") to prepare this Report presenting the following information:

- (a) the historical financial information of the Company, comprising the historical Balance Sheet as at 31 May 2008 and the historical Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period to 31 May 2008 as set out in Appendix 1 to this Report; and
- (b) the proforma consolidated financial information for the Company, comprising the proforma consolidated Balance Sheet as at 31 May 2008 and the proforma consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the period then ended.

The Directors have prepared and are responsible for the historical and proforma information. We disclaim any responsibility for any reliance on this Report or on the financial information to which it relates for any purposes other than that for which it was prepared. This Report should be read in conjunction with the full Information Memorandum.

The historical financial information as set out in Appendix 1 has been extracted from the unaudited financial statements of the Company for the period ended 31 May 2008.

We performed a review of the historical financial information and the proforma consolidated financial information of the Company as at 31 May 2008 in order to ensure consistency in the application of applicable Accounting Standards and other mandatory professional reporting requirements. Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements.

## **2. SCOPE OF REPORT (CONTINUED)**

Our review of the historical financial information and the proforma information of the Company was carried out in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports" and included such enquiries and procedures which we considered necessary for the purposes of this Report. The review procedures undertaken by HLB in our role as Independent Accountants were substantially less in scope than that of an audit examination conducted in accordance with generally accepted auditing standards. Our review was limited primarily to an examination of the historical financial information and the proforma information, analytical review procedures and discussions with senior management. A review of this nature provides less assurance than an audit and, accordingly, this Report does not express an audit opinion on the historical financial information and proforma information included in this Report or elsewhere in the Information Memorandum.

In relation to the information presented in this Report:

- (a) support by another person, corporation or an unrelated entity has not been assumed;
- (b) the amounts shown in respect of assets do not purport to be the amounts that would have been realised if the assets were sold at the date of this Report; and
- (c) the going concern basis of accounting has been adopted.

## **3. FINANCIAL INFORMATION**

Set out in Appendix 1 (attached) are:

- (a) The Balance Sheet of the Company as at 31 May 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the period to 31 May 2008; and
- (b) The proforma Consolidated Balance Sheet of the Company as at 31 May 2008 and proforma Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement for the period then ended as they would appear after incorporating the following significant events and proposed transactions by the Company subsequent to 31 May 2008:
  - (i) the acquisition of an effective 74% interest in Alumicor, via the creation of a loan, payment of cash and issue of shares;
  - (ii) the issue by the Company of 2,250,000 ordinary shares at an issue price of \$0.20 and the provision of loans to the value of \$450,000 pursuant to the Company's Share Plan valued at \$180,000; and
  - (iii) the issue by the Company of 1,650,000 options over ordinary shares, exercisable on or before 31 May 2009 at an exercise price of \$0.20 valued at \$64,350.
- (c) Notes to the historical financial information and proforma consolidated financial information.



#### **4. SUBSEQUENT EVENTS**

In our opinion, there have been no material items, transactions or events subsequent to 31 May 2008 not otherwise disclosed in the Information Memorandum that have come to our attention during the course of our review that would require comment in, or adjustment to, the content of this Report or which would cause such information included in this Report to be misleading.

#### **5. STATEMENTS**

Based on our review, which was not an audit, we have not become aware of any matter that causes us to believe that:

- (a) the historical financial information of Morning Star Holdings (Australia) Limited as at 31 May 2008 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period to 31 May 2008; and
- (b) the proforma consolidated financial information of Morning Star Holdings (Australia) Limited as at 31 May 2008 as set out in Appendix 1 of this Report, does not present fairly the financial position of the Company and the entities it controls as at that date in accordance with the measurement and recognition requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory reporting requirements in Australia and its performance as represented by its results of its operations and its cash flows for the period ended 31 May 2008, as if the transactions referred to in Section 3 (b) of this Report had occurred during that period.

#### **6. DECLARATION**

- (a) HLB will be paid its usual professional fees based on time involvement, for the preparation of this Report and review of the financial information, at our normal professional rates (expected to be \$10,000). HLB, via a related entity, has received an amount of \$1,000 in relation to the provision of valuation services.
- (b) Apart from the aforementioned fees, neither HLB, nor any of its associates will receive any other benefits, either directly or indirectly, for or in connection with the preparation of this Report.
- (c) Neither HLB, nor any of its employees or associated persons has any interest in Morning Star Holdings (Australia) Limited or the promotion of the Company.
- (d) Unless specifically referred to in this Report, or elsewhere in the Information Memorandum, HLB was not involved in the preparation of any other part of the Information Memorandum and did not cause the issue of any other part of the Information Memorandum. Accordingly, HLB makes no representations or warranties as to the completeness or accuracy of the information contained in any other part of the Information Memorandum.

**6. DECLARATION (CONTINUED)**

- (e) HLB has consented to the inclusion of this Report in the Information Memorandum in the form and context in which it appears. The inclusion of this Report should not be taken as an endorsement of the Company or a recommendation by HLB of any participation in the Company by an intending subscriber.

Yours faithfully

**HLB MANN JUDD**



**N G NEILL**

Partner

**- APPENDIX 1 -**  
**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**BALANCE SHEET**  
**AS AT 31 MAY 2008**

		Reviewed	Reviewed Consolidated Proforma
	Notes	\$'000's	\$'000's
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	2	9,336	7,261
Receivables		18	683
Inventory		-	94
<b>TOTAL CURRENT ASSETS</b>		<u>9,354</u>	<u>8,038</u>
<b>NON CURRENT ASSETS</b>			
Other	3	-	1,570
Deferred tax assets		28	28
Property, plant & equipment	4	-	2,029
Intangibles	5	-	2,182
<b>TOTAL NON-CURRENT ASSETS</b>		<u>28</u>	<u>5,809</u>
<b>TOTAL ASSETS</b>		<u>9,382</u>	<u>13,847</u>
<b>CURRENT LIABILITIES</b>			
Interest bearing liabilities	6	-	40
Trade and other creditors	7	103	562
<b>TOTAL CURRENT LIABILITIES</b>		<u>103</u>	<u>602</u>
<b>NON CURRENT LIABILITIES</b>			
Interest bearing liabilities	6	-	146
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>-</u>	<u>146</u>
<b>TOTAL LIABILITIES</b>		<u>103</u>	<u>748</u>
<b>NET ASSETS</b>		<u>9,279</u>	<u>13,099</u>
<b>EQUITY</b>			
Issued capital	8	7,585	10,285
Reserves		31	275
Outside equity interest		-	1,120
Accumulated profits		1,663	1,419
<b>TOTAL EQUITY</b>		<u>9,279</u>	<u>13,099</u>

This balance sheet should be read in conjunction with the accompanying notes.

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**INCOME STATEMENT**  
**FOR THE PERIOD TO 31 MAY 2008**

	Reviewed	Reviewed Consolidated Proforma
	\$'000's	\$'000's
Income from ordinary activities	257	257
Share based payments	-	(244)
Professional fees	(117)	(117)
Directors fees	(80)	(80)
Occupancy expenses	(28)	(28)
Other expenses from ordinary activities	(9)	(9)
Profit/(loss) from ordinary activities before income tax	23	(221)
Income tax expense relating to ordinary activities	-	-
Profit/(loss) from ordinary activities after income tax expense	23	(221)

This statement should be read in conjunction with the accompanying notes.

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE PERIOD TO 31 MAY 2008**

	Reviewed	Reviewed Consolidated Proforma
	\$'000's	\$'000's
<i>Cash Flows From Operating Activities</i>		
Payments to suppliers and employees	(215)	(215)
Interest received	257	257
Income tax paid	-	-
<i>Net Cash Used In Operating Activities</i>	42	42
<i>Cash Flows From Investing Activities</i>		
Acquisition of subsidiary (net of cash acquired)	-	(2,075)
<i>Net Cash Used In Investing Activities</i>	-	(2,075)
<i>Cash Flows From Financing Activities</i>		
Proceeds from borrowings	-	-
<i>Net Cash Provided By Financing Activities</i>	-	-
<i>Net Increase In Cash Held</i>	42	(2,033)
Cash at the beginning of the financial period	9,294	9,294
<i>Cash At The End Of The Financial Period</i>	9,336	7,261

This statement should be read in conjunction with the accompanying notes.

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE PERIOD TO 31 MAY 2008**

	<i>Contributed Equity</i>	<i>Reserves</i>	<i>Outside Equity Interest</i>	<i>Accumulated Profit</i>
	\$'000's	\$'000's	\$'000's	\$'000's
Balance as at 1 January 2008	7,585	31	-	1,640
Shares issued during the period	-	-	-	-
Profit/(Loss) for the period	-	-	-	23
<b>As at 31 May 2008</b>	<b>7,585</b>	<b>31</b>	<b>-</b>	<b>1,663</b>
<b>Proforma adjustments:</b>				
Share and options expense	450	244	-	(244)
Acquisition of Alumicor	2,250	-	1,120	-
Share issue expenses	-	-	-	-
<b>Proforma total</b>	<b>10,285</b>	<b>275</b>	<b>1,120</b>	<b>1,419</b>

This statement should be read in conjunction with the accompanying notes

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**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies which have been adopted in the preparation of the historical and proforma financial information reported under Australian Equivalents to International Financial Reporting Standards ("AIFRS") are shown below.

**(a) Basis of accounting**

The financial statements have been prepared in accordance with the measurement requirements (but not all of the disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements in Australia using the accrual basis of accounting, including the historical cost convention.

**(b) Statement of compliance**

The financial information complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial information, comprising the financial statements and notes thereto, comply with measurement requirements but not all of the disclosure requirements of the International Financial Reporting Standards.

**(c) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the balance sheet.

**(d) 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 Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Revenue recognition (continued)**

*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.

**(e) 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.

**(f) Income tax**

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

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) Income tax (continued)**

- 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.

**(g) Trade and other payables**

Trade and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company 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.

**(h) Issued capital**

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.

**(i) Share based payments – shares and options**

The Company has established by way of a meeting of the shareholders held 18 June 2008 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).

Equity-settled share-based payments are measured at fair value at the date of grant. Fair value is measured by use of an option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period or when there vesting condition are met.

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(j) Principles of Consolidation**

A controlled entity is any entity over which MSH has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated proforma financial statements as well as their results for the period then ended. Where controlled entities have entered (left) the consolidated group during the year, their operating results have been included (excluded) from the date control was obtained (ceased).

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the group, are shown separately within the Equity section of the consolidated Balance Sheet and in the consolidated Income Statement.

**(k) Proforma transactions**

The proforma Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Statement of Changes in Equity and Consolidated Cash Flow Statement have been derived from the historical financial information as at 31 May 2008 adjusted to give effect to the following actual or proposed significant events and transactions by the Company subsequent to 31 May 2008:

- (i) the acquisition of an effective 74% interest in Alumicor, via the creation of a loan, payment of cash and issue of shares;
- (ii) the issue by the Company of 2,250,000 ordinary shares at an issue price of \$0.20 and the provision of loans to the value of \$450,000 pursuant to the Company's Share Plan valued at \$180,000; and
- (iii) the issue by the Company of 1,650,000 options over ordinary shares, exercisable on or before 31 May 2009 at an exercise price of \$0.20 valued at \$64,350.

	Reviewed \$'000's	Reviewed Consolidated Proforma \$'000's
<b>2. CASH AND CASH EQUIVALENTS</b>		
Balance as at 31 May 2008	9,336	9,336
Acquisition of Alumicor	-	(2,265)
Cash acquired	-	190
	<u>9,336</u>	<u>7,261</u>
<b>3. OTHER</b>		
Shareholder loans receivable under share plan	-	450
Other shareholder loans (Outside Equity - African Dune)	-	1,120
	<u>-</u>	<u>1,570</u>



**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

	Reviewed \$'000's	Reviewed Proforma \$'000's
<b>4. PROPERTY, PLANT AND EQUIPMENT</b>		
Land and Buildings	-	1,215
Less: Accumulated depreciation	-	(74)
	-	1,141
 Motor Vehicles	-	334
Less: Accumulated depreciation	-	(121)
	-	213
 Plant & equipment	-	861
Less: Accumulated depreciation	-	(199)
	-	662
 Office furniture, Computer equipment & software	-	25
Less: Accumulated depreciation	-	(12)
	-	13
	-	2,029
 <b>5. INTANGIBLES</b>		
Goodwill	-	2,182
 <b>6. INTEREST BEARING LIABILITIES</b>		
Instalment sale agreements	-	238
Unexpired finance charges	-	(52)
	-	186
Comprising:		
Current	-	40
Non-current	-	146
	-	186
 <b>7. TRADE AND OTHER CREDITORS</b>		
Trade and other payables	103	512
Accruals	-	50
	103	562
 <b>8. ISSUED CAPITAL</b>		
Issued and paid up share capital		
Shares issued:		
Balance as at 31 May 2008	7,585	7,585
Shares issued to acquire Alumicor	-	2,250
Shares issued to directors	-	450
	7,585	10,285

**MORNING STAR HOLDINGS (AUSTRALIA) LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD TO 31 MAY 2008**

**8. ISSUED CAPITAL (CONTINUED)**

	Number '000's	\$ '000's
Movements in number of fully paid ordinary shares:		
Balance as at 31 May 2008	182,295	7,585
Share consolidation	(91,147)	-
Shares issued to acquire Alumicor	11,310	2,250
Shares issued to directors	2,250	450
	<u>104,708</u>	<u>10,285</u>

**9. OPTIONS**

	Number '000's	Number '000's
Issued to directors, exercisable at 20 cents on or before 30 June 2011 (unlisted)	-	<u>1,650</u>

**10. ACQUISITION OF ALUMICOR**

	\$'000's
Purchase consideration	
Cash consideration	2,265
Shares issued	<u>2,250</u>
	4,515
Assets and liabilities held at acquisition date:	
Cash	190
Receivables	665
Inventory	94
Fixed Assets	2,029
Accounts payable	(409)
Other liabilities	(50)
Interest bearing liabilities	<u>(186)</u>
	2,333
Goodwill on acquisition	2,182
Minority interest in acquisition	1,120

**11. CONTINGENCIES AND COMMITMENTS**

Details of planned expenditure commitments are outlined in Section 2.8 of the Information Memorandum.

The Directors are not aware of any other contingencies.

**12. RELATED PARTY TRANSACTIONS**

Details of Directors' interests in the Company's issued capital and transactions with the Company are included in Section 6.6 and 6.7 of the Information Memorandum.

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## **6. Additional information**

### **6.1 Rights and restrictions attaching to Shares**

The rights and restrictions attaching to ownership of the Shares arise from a combination of the Constitution, statute and general law. This summary of the more significant rights, based on the Company's Constitution, is not exhaustive, nor does it constitute a definitive statement of the rights and liabilities of the Company's Shareholders.

The Constitution of the Company may be inspected during normal business hours at the registered office of the Company.

All Shares are of the same class and rank equally in all respects. The existing issued Share capital of the Company together with the Acquisition Shares are fully paid Shares.

#### **(a) General Meetings**

Each member will be entitled to receive notice of, and to be present and speak at (in person or by proxy, attorney or representative) each general meeting of the Company. Each eligible member is entitled to vote in person or by proxy or representative at a general meeting. Members are entitled to receive notices, accounts and other documents required to be furnished to members under the Constitution, the Corporations Act and the Listing Rules. Where a share is jointly held, the Company may give a notice to the joint holder first named in the register in respect of the share. Members may requisition meetings in accordance with section 249D of the Corporations Act and the Constitution.

#### **(b) Voting Rights**

Subject to the Constitution and any rights or restrictions attached to any class or classes of shares, at general meetings:

- (i) each member entitled to vote may vote in person or by proxy, or representative;
- (ii) on a show of hands, every member present or person present entitled to the rights of a member in accordance with the Constitution has one vote; and
- (iii) on a poll, every member or person entitled to the rights of a member in accordance with the Constitution, present in person or by proxy or representative has one vote for each fully paid share that member holds, and a fraction of a vote for each partly paid share that member holds where the fraction is equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) on that share.

A member will not be entitled to vote at a general meeting unless all calls and other sums presently payable by that member in respect of shares have been paid; and during a breach of the Listing Rules relating to restricted securities, or a breach of a restriction agreement by that member.

Where a share is jointly held, only the vote of the member whose name appears first in the register of members counts.

In the case of an equality of votes, the chairperson has a casting vote.

(c) **Dividend Rights**

Subject to the Listing Rules and the rights of any persons entitled to shares with special rights as to dividends, any profits of the Company are to be divided among members in proportion to the aggregate amounts paid up on the shares held by them respectively. An amount paid on a share in advance of a call that attracts interest will not be taken, for this purpose, to be paid up on the share.

(d) **Winding-Up**

The liquidator in a winding up may, with the sanction of a special resolution:

- (i) divide among the members the whole or any part of the property of the Company;
- (ii) set such value as the liquidator considers fair upon any property to be so divided;
- (iii) determine how the division is to be carried out as between the Members or different classes of members; and
- (iv) vest the whole of any part of any such property in trustees upon such trusts for the benefit of the contributories as the liquidator thinks fit, but so that no member is compelled to accept any shares or other securities in respect of which there is any liability.

Any surplus assets of the Company after winding up will be divided among the members in proportion to the issued share capital paid up on their shares, whether or not the liquidator has exercised its power described above.

(e) **Transfer of Shares**

Subject to the Constitution, a member may transfer shares by a market transfer in accordance with any system introduced by ASX or operated in accordance with the ASTC Rules or the Listing Rules and recognised by the Corporations Act, or an instrument in writing in any usual or common form or any other form approved by the Directors or ASX.

The Directors may decline to register a transfer in the circumstances so required or permitted under the Corporations Act, the Listing Rules or the ASTC Rules, or a transfer of restricted securities during the escrow period except as permitted by the Listing Rules or ASX. If the Directors decline to register a paper based transfer the Company must notify the transferee and lodging broker accordingly.

The Company may apply a holding lock to securities where permitted to do so under the Listing Rules and the ASTC Rules, but must notify the holder of those securities accordingly.

(f) **Variation of Rights**

Subject to the Listing Rules, if at any time the share capital is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of the issue of the shares of that class), whether or not the Company is being wound up may be varied or cancelled by special resolution of the Company and either with the written consent of members with at least 75% of the votes in the class, or by special resolution passed at a meeting of the holders of the shares of that class.

## 6.2 Terms of Options

As at the date of this Information Memorandum, there are no Options on issue. However, Shareholder approval has been obtained for the grant of 1,650,000 Options on the following terms and conditions:

- (a) The exercise of each Option will entitle the holder to one fully paid ordinary share in the capital of the Company.
- (b) The exercise price of each Option is \$0.20.
- (c) The Options will expire on 31 May 2009.
- (d) Exercise of the Options is effected by completing the "Election Form to Exercise Options" attached to the invitation to apply for the grant of Options and delivering it together with the payment for the number of Shares in respect of which the Options are exercised to the registered office of the Company.
- (e) An Option holder is required to exercise the Option in order to participate in a bonus or entitlement issue of shares made by the Company. Option holders will be provided with written notice of the terms of the issue to shareholders and afforded that period as determined by the Listing Rules to exercise their Options if they wish to participate in the bonus or entitlement issue.
- (f) If, prior to the expiry of an Option, there is a reorganisation (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Shares subject to the Option and/or the exercise price will be adjusted in the manner required by the Listing Rules.
- (g) All shares issued upon exercise of the Options will, from the date they are issued, rank equally in all respects with the Company's then issued Shares.
- (h) Shares allotted and issued pursuant to the exercise of an Option will be allotted within the time prescribed by the Listing Rules. The Company will apply for official quotation of shares issued pursuant to the exercise of Options in accordance with the Listing Rules.
- (i) A certificate will be issued for Options, which must take effect as a deed.
- (j) Application will not be made for official quotation of the Options on ASX.
- (k) Options are not transferable except with the prior written approval of the board of Directors.
- (l) The Company is not obliged to give an Option holder copies of any notices, circulars and other documents sent by the Company to its shareholders until the Option holder becomes a shareholder by exercising any or all of its Options.

## 6.3 Share and Option Plans

### (a) Morning Star Share Plan

A summary of the terms and conditions of the Morning Star Share Plan, as set out in the Share Plan rules, is set out below:

**Participants** - Participants in the Share Plan may be directors, full-time and part-time employees of, and consultants to, the Company or any of its subsidiaries (**Participants**).

**Board** - The Board, or a duly appointed committee of the Board, is responsible for the operation of the Share Plan.

**Eligibility** - The Board determines the eligibility of Participants, having regard to:

- (i) the seniority of the Participant and the position the Participant occupies with the Company or any subsidiary;
- (ii) the length of service of the Participant with the Company and its subsidiaries;
- (iii) the record of employment of the Participant with the Company and its subsidiaries;
- (iv) the potential contribution of the Participant to the growth and profitability of the Company and its subsidiaries; and
- (v) any other matters which the Board considers relevant.

**Invitations** - The Board may issue invitations to the Participants for the number of Plan Shares specified in the invitation. Shares offered under the Share Plan must be in the name of the Participant.

**Number of Shares** - The number of Shares that may be offered to a Participant is entirely within the discretion of the Board.

**Issue Price** - The issue price for each Plan Share will be not less than:

- (i) (if there was at least one transaction in the Shares on ASX during the 5 day trading period immediately before the date on which an offer was made) the weighted average trading price of the Shares on ASX during that period; or
- (ii) (if there were no transaction in the Shares on ASX during that 5 day trading period immediately before the date on which an offer was made) the last price at which an offer was made on ASX to purchase a Share.

**Loan** - A Participant who is invited to subscribe for Shares under the Share Plan may also be invited to apply for a loan (**Loan**) up to the amount payable in respect of the Shares accepted by the Participant, on the following terms:

- (i) Loans must be made solely to the Participant and in the name of that Participant.
- (ii) Loans will be interest free.
- (iii) Any Loan made available to a Participant shall be applied by the Company directly toward payment of the issue price of the Shares to be acquired under the Share Plan.
- (iv) The term of the Loan, the time in which repayment of the Loan must be made by the Participant and the manner for making such payments shall be determined by the Board and set out in the invitation.
- (v) The amount repayable on the Loan by the Participant will be the lesser of:
  - A. the issue price of the Shares, less any cash dividends paid in respect of the Shares and applied by the Company in

accordance with paragraph (vii) below and any amount of the Loan repaid by the Participant; and

- B. the last sale price of the Shares on ASX on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.
- (vi) A Participant must repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not less than 1,000 Shares) at any time prior to expiry of the term of the Loan.
- (vii) Cash dividends which are paid in respect of Shares the subject of a Loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the Loan and any surplus of the cash dividend will be paid to the Participant.
- (viii) Any fees, charges and stamp duty payable in respect of a Loan will be payable by the Participant.
- (ix) The Company shall have a lien over the Shares in respect of which a Loan is outstanding and the Company shall be entitled to sell those Shares in accordance with the terms of the Share Plan.
- (x) A Share issued under the Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid and the Company will retain the Share Certificate in respect of the Loan Shares until the Loan amount has been repaid.

**Termination of the Loan prior to the Repayment Date** - If, prior to repayment of a Loan by a Participant:

- (i) the Participant dies, becomes bankrupt or is no longer a director or employee of, or consultant to, the Company or its subsidiaries as a result of retirement or retrenchment, then the Participant is required to either repay the loan within 12 months or allow the Company to sell the Shares and apply the proceeds of sale in repayment of the Loan; or
- (ii) the Participant is no longer a director or employee of, or consultant to, the Company or its subsidiaries other than as a result of one of the matters referred to in paragraph (a) above, then the Participant is required to either repay the loan within one month or allow the Company to sell the Shares and apply the proceeds of the sale in repayment of the loan.

If the proceeds of sale of the Shares are less than the amount outstanding in relation to the Loan, the Company will forgive the amount of the shortfall.

**Restriction on Transfer** - Subject to the requirements of the Listing Rules, Shares issued under the Share Plan will not be quoted on ASX and may not be sold or otherwise dealt with until the loan in respect of those Shares has been repaid in full and any other qualifying period that may be imposed by the Board has expired. If a Participant wishes to sell any Shares prior to the expiry of the qualifying period, the Participant may give written notice to the Company requesting the Company to place shares with excluded offerees for the purposes of s708 of the Corporations Act or to sell the relevant Shares on ASX. The Directors have absolute discretion

to arrange the sale of the Shares, in the case of hardship or otherwise, provided that the proceeds of sale are reasonably likely to exceed the outstanding Loan amount.

**Rights attaching to Shares issued under the Share Plan** - Shares which are issued under the Share Plan will rank equally in all respects (other than with respect to any restriction on transfer imposed until the Loan has been repaid or otherwise imposed by the Board and set out in the relevant invitation) with all Shares on issue and, subject to the requirements of the Listing Rules, the Company will apply for quotation of those shares on ASX once the loan in respect of those Shares has been repaid in full and any other restrictions on transfer imposed by the Board have been satisfied.

(b) **Morning Star Option Plan**

A summary of the terms and conditions of the Morning Star Option Plan, as set out in the Option Plan rules, is set out below:

**Participants** - Participants in the Option Plan may be directors and full time or part-time employees of the Company or any of its subsidiaries (**Participants**).

**Board** - The Board, or a duly appointed committee of the Board, is responsible for the operation of the Option Plan.

**Eligibility** - The Board determines the eligibility of Participants, having regard to:

- (i) the seniority of the Participant and the position the Participant occupies with the Company or any subsidiary;
- (ii) the length of service of the Participant with the Company and its subsidiaries;
- (iii) the record of employment of the Participant with the Company and its subsidiaries;
- (iv) the potential contribution of the Participant to the growth and profitability of the Company and its subsidiaries;
- (v) the extent (if any) of the existing participation of the Participant in the Option Plan; and
- (vi) any other matters which the Board considers relevant.

**Invitations** - The Board may, in its absolute discretion, issue invitations to Participants for the number of options specified in the invitation. Options may be renounced in favour of the spouse of the invitee, a body corporate in which the invitee holds and beneficially owns not less than 50% of the issued voting share capital, the trustee of a trust in which the invitee is a beneficiary or object or the trustee of a superannuation fund of which the invitee is a member.

**Number of Options** - The number of options that may be offered to a Participant is entirely within the discretion of the Board. Each option will entitle the holder to one Share, upon payment of the exercise price in full upon application, prior to the expiry date.

**Issue Price** - Options granted under the Option Plan will be granted free of charge.

**Exercise Price** - The exercise price of Options granted under the Option Plan will be determined by the Board, but must not be less than:



- (i) (if there was at least one transaction in Shares on ASX during the 5 trading day period immediately before the date of the offer) the weighted average of the prices at which the Shares were traded on ASX during that period; or
- (ii) (if there were no transactions in the Shares on ASX during the 5 trading day period immediately before the date on which the offer is made), the last price at which an offer was made on ASX to purchase a Share.

**Expiry Date** - The expiry date of the options will be determined by the Board, but will not be more than 10 years. Options granted under the Option Plan will lapse if not exercised prior to the expiry date, or on the first to occur of the following:

- (i) if the Participant (or the person by virtue of whom a Participant holds options) ceases to be a Director, or employee for any reason other than set out in paragraph (b) below, one month thereafter; and
- (ii) if the Participant (or the person by virtue of whom a Participant holds options) dies, retires, is retrenched, becomes bankrupt, wound up or deregistered, 12 months thereafter.

**Restriction on Transfer** - Options may not be transferred without the prior written approval of the Board.

**Adjustment of Options** - If, prior to the expiry of an option granted under the Option Plan, there is a reorganisation of the issued share capital of the Company (including a consolidation, subdivision or reduction of capital or return of capital to shareholders), the number of Shares subject to the option and/or the exercise price will be adjusted in the manner required by the Listing Rules.

**Bonus issue and rights issues** - A participant is required to exercise an Option in order to participate in a bonus or entitlement issue made by the Company. Participants will be provided with written notice of the terms of the issue to shareholders and afforded that period as determined by the Listing Rules to exercise their Options if they wish to participate in the bonus or entitlement issue.

**Shares issued on Exercise of Options** - Shares which are issued as a result of the exercise of options granted under the Option Plan will rank equally in all respects with all Shares on issue and the Company will apply for quotation of those Shares on ASX.

**Rights on exercise of option** - Dividends will not accrue on the shares in respect of which the option was exercised until the exercise price has been paid in full in cash. No Participant may exercise any votes attaching to the shares in respect of which the option was exercised until the exercise price has been paid in full in cash.

## 6.4 Restricted securities

The Acquisition Shares to be issued to Sorrel are likely to be classified by ASX as restricted securities. Sorrel has entered into a restriction agreement, the effect of which will be that the restricted securities cannot be dealt with for a period determined by ASX.

## 6.5 Litigation

Legal proceedings may arise from time to time in the course of the Company's business. As at the date of this Information Memorandum, the Company is not involved in any legal proceedings nor, so far as the Directors and proposed Director are aware, are any legal proceedings pending or threatened against the Company.

## 6.6 Directors' Interests

Other than as set out in this Information Memorandum, no Director, no proposed Director and no firm in which a Director or proposed Director is a partner, has at the date of this Information Memorandum, or has had within two years before the date of this Information Memorandum, any interest in the promotion of Morning Star or in any property acquired or proposed to be acquired by Morning Star, and no amounts (whether in cash or shares or otherwise) have been paid or agreed to be paid by any person to any Director or proposed Director or to any firm in which a Director or proposed Director is a partner, either to induce him to become, or to qualify him as, a Director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of Morning Star.

Set out below are details of the Directors and proposed Director's relevant interests in securities of the Company as at the date of this Information Memorandum and following completion of the issue of the securities approved by Shareholders at the General Meeting.

Director/Proposed Director	Shares	Options
Dean Gallegos	1,908,334	1,500,000
Grant Button	750,000	Nil
Richard Rossiter	1,500,000	Nil
Bruce Burrell	25,000	150,000
Clive Poulton	Nil	Nil

## 6.7 Directors' Remuneration

The Constitution and the Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. Shareholders have approved an aggregate remuneration of \$300,000 per year.

Details of the remuneration paid to Directors for services provided during the last two complete financial years:

Remuneration for the year the past two years ended 31 December 2007								
Director	Salary/Fees		Options		Superannuation		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Dean Gallegos	120,000	42,903	27,900	-	-	-	147,900	42,903
Bruce Burrell	24,000	7,733	2,700	-	-	-	26,700	7,733
Richard Rossiter	8,774	-	-	-	-	-	8,774	-
Grant Button	8,774	-	-	-	-	-	8,774	-

Details of the estimated remuneration payable to Directors and the proposed Director for the year beginning 1 January 2008 are as follows.

Director	Salary/Fees	Equity	Superannuation	Total
Dean Gallegos	167,500	58,500	Nil	226,000
Grant Button	24,000	60,000	2,160	86,160
Richard Rossiter	97,333	120,000	1,260	218,593
Bruce Burrell	16,000	5,850	1,440	23,290
Clive Poulton	8,000	-		8,000

## 6.8 Interests of Persons Named

Other than as set out below or elsewhere in this Information Memorandum:

- (a) no person named in this Information Memorandum as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Information Memorandum, or any promoter of the Company, holds, or during the last two years has held, any interest in:
  - (i) the formation or promotion of the Company; or
  - (ii) property acquired or proposed to be acquired by the Company in connection with its formation or promotion; and
- (b) no amounts of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid by any person and no benefits have been given or agreed to be given by any person to any expert, promoter or any other person named in this Information Memorandum as performing a function in a professional advisory or other capacity in connection with the preparation or distribution of this Information Memorandum, or to any firm in which any of those persons is or was a partner or to any company in which any of those persons is or was associated with, for services rendered by that person in connection with the formation or promotion of the Company.

Clayton Utz has acted as solicitor to the Company in respect of its application and admission to ASX and issue of this Information Memorandum. Clayton Utz will be paid approximately \$70,000 (plus GST) in respect of these services up to the date of this Information Memorandum. Further amounts may be paid in accordance with Clayton Utz's normal time-based charge-out rates.

HLB Mann Judd has acted as an independent accountant and has prepared the Independent Accountant's Report included in Section 5 of this Information Memorandum. HLB Mann Judd will be paid approximately \$10,000 (plus GST) in respect of these services.

## 6.9 Consents

Each of the parties referred to in this section:

- (a) does not make, or purport to make any statement in this Information Memorandum other than those referred to in this section; and

- (b) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Information Memorandum other than a reference to its name and a statement included in this Information Memorandum with the consent of that party as specified in this section.

Clayton Utz has given and has not, before lodgement of this Information Memorandum, withdrawn its consent to being named as solicitor in the form and context in which it is named.

HLB Mann Judd has given and has not, before lodgement of this Information Memorandum, withdrawn its consent to being named as the independent accountant of the Company in the form and context in which it is named and the inclusion of the Independent Accountant's Report included in Section 5 of this Information Memorandum in the form and context in which it is included.

Computershare Investor Services Pty Ltd has given and has not, before lodgement of this Information Memorandum, withdrawn its consent to being named as the share registry of the Company in the form and context in which it is named.

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## 7. Directors' Responsibility Statement and Consent

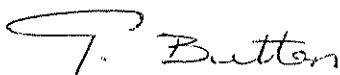
The Directors and proposed Director state that they have made all reasonable enquiries and have reasonable grounds to believe that any statements made by the Directors and proposed Director in this Information Memorandum are not misleading or deceptive and that in respect of any other statements made in this Information Memorandum by persons other than Directors and the proposed Director, the Directors and proposed Director have made reasonable enquiries and have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons having given their consent to the issue of this Information Memorandum and have not withdrawn that consent, before lodgement of this Information Memorandum with ASX

This Information Memorandum is prepared on the basis that:

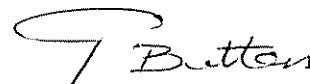
- (a) certain matters may be reasonably expected to be known to professional advisers of any kind with which applicants may reasonably be expected to consult; and
- (b) information is known to applicants or their professional advisers by virtue of any acts or laws of Western Australia or the Commonwealth of Australia

Each Director and the proposed Director has given and has not, at the date of this Information Memorandum, withdrawn his consent to the lodgement with ASX of this Information Memorandum.

This Information Memorandum is issued by Morning Star Holdings (Australia) Limited. Its issue was authorised by resolution of the Directors and is signed by or on behalf of all Directors and proposed Director.



Dean L Gallegos  
Signed by his duly authorised agent  
Grant M Button



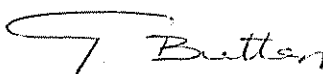
Grant M Button



Richard D Rossiter  
Signed by his duly authorised agent  
Grant M Button



Clive S Poulton  
Signed by his duly authorised agent  
Grant M Button



Bruce David Burrell  
Signed by his duly authorised agent  
Grant M Button

Dated this 1st day of August 2008

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## Glossary

In this Information Memorandum the following terms and abbreviations have the following meanings, unless otherwise stated or unless the context otherwise requires:

"\$" means Australian dollar.

"**Acquisition Payment**" means R16,022,736 to be paid by the Company to Sorrel pursuant to the Sale Agreement in consideration of the acquisition of the Loan Account.

"**Acquisition Shares**" means 11,309,885 Post Consolidation Shares to be issued to Sorrel pursuant to the Sale Agreement in consideration for the acquisition of the Alumicor Shares.

"**African Dune**" means African Dune Investments 114 (Pty) Ltd, with registration number 2006/037149/07.

"**Alumicor**" means Alumicor SA Holdings (Pty) Ltd, with registration number 2005/020818/07.

"**Alumicor Shares**" means 100% of the issued capital of Alumicor.

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

"**ASTC**" means ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.

"**ASTC Rules**" means the operating rules of ASTC, except to the extent of any relief given by ASTC.

"**ASX**" means ASX Limited ABN 98 008 624 691.

"**Board**" means the board of Directors of the Company as it is constituted from time to time.

"**Business Day**" has the meaning given in the Listing Rules.

"**Capital Consolidation**" means the consolidation of every 2 Shares in the share capital of the Company into one Share (fractions rounded up), as approved by Shareholders at the General Meeting.

"**Chairman**" means the Chairman of the Board.

"**CHESS**" means Clearing House Electronic Subregister System.

"**Company**" or "**Morning Star**" means Morning Star Holdings (Australia) Limited ACN 008 124 025.

"**Constitution**" means the constitution of the Company.

"**Co-operation Agreement**" means the co-operation agreement between the Company and Sorrel dated 19 May 2008.

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

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

"**Dross**" means the scum or residue produced following the melting of aluminium ingots.

"**General Meeting**" means the general meeting of Shareholders held at Level 15, 25 Bligh Street, Sydney at 11am (EST) on 18 July 2008.

"**Independent Accountant**" means HLB Mann Judd.

"**Information Memorandum**" means this Information Memorandum.

**"KVA"** means kilovolt amps.

**"Loan Account"** means a loan owed by Alumicor to Sorrel of R16,022,736.

**"Loan Agreement"** means the loan agreement between the Company and African Dune dated 19 May 2008.

**"Listing Rules"** means the official rules of ASX as they apply to the Company from time to time and as amended, re-enacted, replaced or superseded.

**"Official List"** means the official list of entities, which ASX has admitted and not removed.

**"Option"** means a right to subscribe for a Share, subject to its terms and conditions.

**"Optionholder"** means a holder of Options.

**"Option Plan"** means the Morning Star Option Plan, a summary of which is set out in Section 6.3(b).

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

**"Post Consolidation Shares"** means Shares after Capital Consolidation.

**"Proposed Transaction"** means the proposed acquisition by the Company of all of the shares in Alumicor held by Sorrel, including the on-sale of 26% of those shares to African Dune.

**"R"** means Rand, the official currency of South Africa.

**"Related Bodies Corporate"** has the meaning given in the *Corporations Act*.

**"Sale Agreement"** means the agreement between the Company and Sorrel dated 19 May 2008 in respect of the Proposed Transaction.

**"Section"** means a section of this Information Memorandum.

**"Share"** means a fully paid ordinary share in the capital of the Company.

**"Shareholder"** means a holder of Shares.

**"Share Plan"** means the Morning Star Share Plan, a summary of which is set out in Section 6.3(a).

**"Share Sale and Shareholders Agreement"** means the agreement between the Company, Alumicor and African Dune dated 19 May 2008.

**"Sorrel"** means Sorrel Enterprises Limited.

**"Ton"** means a metric ton of 1 000 kilograms.