Morning Star Holdings (Australia) Limited

ABN 98 008 124 025

ASX / media release

30 January 2009

Quarterly report 31 December 2008
Highlights

ALUMICOR SA PTY LTD

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

Smelting and recovery performance comparison

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

Note: MSH assumed ownership of Alumicor on 1 August

Operations

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

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

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

Financial

Revenues were negatively impacted by lower volumes while costs suffered due to rising input costs, resulting in losses being incurred in this quarter at Alumicor. Costs were largely affected by the significant increase in the cost of salt flux, a component of which is used in the competing fertilizer and bio fuel industry, together with increased management and supervision costs required to resolve the recovery problems. Attempts to lower the amount of flux used and negotiate a reduction of the flux prices have not been successful to date.

Efforts are now being directed at renegotiating the commercial arrangement with Hulamin to ensure that Alumicor operations remain profitable in volatile input cost environments and yield adequate returns for MSH shareholders (Note:- toll conversion fees per ton of dross have to date been negotiated annually providing limited flexibility to accommodate fluctuating input costs). Alumicor has further requested rebates for losses incurred to date, with negotiations being hampered by the overall downturn in the aluminium market.

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

STRATEGY AND BUSINESS DEVELOPMENT

During the quarter the board and management have been actively pursuing strategies to:-

- Identify process and management issues and return operations at Alumicor SA to profitability
- Grow MSH via identifying and developing additional business opportunities
- Conserve cash resources (A$6.3m as at 31 December 2008)

Business development activities have been focussed on:-

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

CORPORATE

Referring to the attached 4C, the net cash outflow for the quarter of $349,000 comprised final acquisition costs amounting to A$110,000 and operating cash losses of $206,000.

If you have any queries please contact Richard Rossiter on 0418 688 338, or Theo Renard (CFO) on 0430 205 889.

Yours sincerely

Richard Rossiter
Managing Director

Rule 4.7B

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity

Morning Star Holdings (Australia) Limited

ABN

98 008 124 025

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

	Cash flows related to operating activities	Current quarter $A'000	Year to date (12 months) $A'000
1.1	Receipts from customers	1,236	2,136
1.2	Payments for (a) staff costs	(353)	(454)
	(b) advertising and marketing	(2)	(4)
	(c) research and development		
	(d) leased assets		
	(e) other working capital	(1,214)	(2,571)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	133	561
1.5	Interest and other costs of finance paid	(6)	(24)
1.6	Income taxes refund/(paid)		
1.7	Other (provide details if material)		
	Net operating cash flows	(206)	(356)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities admitted on the basis of commitments

		Current quarter $A'000	Year to date (12 months) $A'000
1.8	Net operating cash flows (carried forward)	(206)	(356)
	Cash flows related to investing activities		
1.9	Payment for acquisition of:		
	(a) businesses	(110)	(2,634)
	(b) equity investments		
	(c) intellectual property		
	(d) physical non-current assets	(20)	(58)
	(e) other non-current assets		
1.10	Proceeds from disposal of:		
	(a) businesses (item 5)		
	(b) equity investments		
	(c) intellectual property		
	(d) physical non-current assets		
	(e) other non-current assets		
1.11	Loans to other entities		
1.12	Loans repaid by other entities		
1.13	Other – Funds acquired on acquisition of business		350
	Net investing cash flows	(130)	(2,698)
1.14	**Total operating and investing cash flows**	(336)	(2,723)
	Cash flows related to financing activities		
1.15	Proceeds from issues of shares, notes, etc.		
1.16	Proceeds from sale of forfeited shares		
1.17	Proceeds from borrowings		
1.18	Repayment of borrowings	(13)	(25)
1.19	Dividends paid		
1.20	Other –		
	Net financing cash flows		
	Net increase (decrease) in cash held	(349)	(2,723)
1.21	Cash at beginning of quarter/year to date	6,920	9,294
1.22	Exchange rate adjustments to item 1.21	12	12
1.23	**Cash at end of quarter/year to date**	6,583	6,583

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter $A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	207
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Alumicor SA Holdings (Pty) Ltd has been brought to account from 1 August 2008

1.13 Funds acquired on acquisition of

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	162	162
3.2	Credit standby arrangements	Nil	Nil

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Curent quarter $A'000	Previous quarter $A'000
4.1	Cash on hand and at bank	74	37
4.2	Deposits at call	6,272	6,489
4.3	Bank overdraft		
4.4	Other – Foreign currencies held overseas	237	394
	Total: cash at end of quarter (item 1.22)	6,583	6,920

Acquisitions and disposals of business entities

		Acquisitions *(Item 1.9(a))*	Disposals *(Item 1.10(a))*
5.1	Name of entity/business	Alumicor SA Holdings Pty Limited	N/A
5.2	Place of incorporation or registration	South Africa	N/A
5.3	Consideration for acquisition or disposal	Cash consideration $A2,634,486 11,309,885 ordinary shares	N/A
5.4	Total net assets	A$110,347	N/A
5.5	Nature of business	Aluminium dross recovery and smelting	N/A

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does /~~does not~~* *(delete one)* give a true and fair view of the matters disclosed.

Sign here: ..... Date: 30 January 2009
(Director/Company secretary)

Print name: THEO RENARD

Notes

+ See chapter 19 for defined terms.

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.

   - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
   - 9.2 - itemised disclosure relating to acquisitions
   - 9.4 - itemised disclosure relating to disposals
   - 12.1(a) - policy for classification of cash items
   - 12.3 - disclosure of restrictions on use of cash
   - 13.1 - comparative information

3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.