The Association

The Mackay Sugar Co-operative Association Limited, formed in 1988, is Queensland’s largest private company and produces more than 20 percent of Australia’s raw sugar at its four Mackay mills. Through a 25 percent interest in Sugar Australia Pty Ltd and the New Zealand Sugar Company it is also a major participant in sugar refining and marketing in Australia and New Zealand.

Directors

C E (Eddie) Westcott, Chairman
B B W (Barry) Sheedy, Deputy Chairman
A (Andrew) Barfield
A S (Andrew) Cappello
G R (Graham) Davies
I W (Ian) Donaldson
I L (Ian) Fraser
R S (Richard) Galea
M F D (Malcolm) Pratt
M A (Albert) Volker

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Notice of Meeting

Notice is hereby given that the
16th Annual General Meeting
of the
Mackay Sugar Co-operative Association Limited
will be held in the
Mackay Entertainment Centre,
Gordon Street, Mackay
on
Thursday 27th November 2003,
commencing at
9.00 a.m.
Summary

Sugar Production

- **Tonnes Cane Processed - 6.253M** (5.015M last year)
  A timely dose of rain just prior to the commencement of the crushing season stimulated some very welcome late growth in the crop resulting in a 24.7 percent increase over the previous year’s crop. This year’s crop was crushed using three mills instead of the four of the previous season.

- **Sugar Content - 14.57 CCS** (14.77 last year)
  The early rain was almost the only rain for the season and the dry conditions that quickly became a drought saw the same positive influence on CCS as had occurred in the previous season.

- **Tonnes Sugar Produced - 933 347** (755 866 last year)
  The improved cane crop coupled with another high CCS year resulted in a 23.5 percent increase in sugar output to 933 347 tonnes IPS sugar, the highest production since 1998.

Financial Performance

- **Operating Revenue - $290.5M** ($272.1M last year)
  A significant reduction in the sugar price by $54.90 per tonne IPS sugar to $276.70 per tonne ($331.60/tonne in 2001/02) was offset by improved returns for molasses and the increase in crop size to produce a 6.7 percent improvement in operating revenue to $290.5 million.

- **Operating Profit - $12.578M** ($1.219M loss last year)
  Pleasingly, the improved crop and another solid performance by the refining joint venture saw the better than $13 million positive turnaround of the previous year duplicated again this year with an improvement of $13.797 million.

The Year Ahead

- **Low crop and lower prices point to another loss**
  The combination of the impact of drought on the 2003 crop, a further weakening of the world market price for sugar, a strengthening Australian dollar and the commitment to a full maintenance program in the Association’s four mills point to a negative result for Mackay Sugar in 2003/04.
2002 - 2003 has been another year of great change for Mackay Sugar.

Mackay Sugar returned to profit for the first time in four years with a $12.578 million result for the business and at the same time achieved a reduction in our overall debt by $23.8 million.

One of the more significant changes that occurred during the past year was the Chairman of Directors since incorporation, Graham Davies, announced he was stepping down from the position following last year’s Annual General Meeting. Graham subsequently resigned from the Board at our December meeting.

Graham Davies played a pivotal role in the formation of Mackay Sugar, working tirelessly to achieve the merger of the district’s five co-operatives in 1988. His achievements since merger have been many, including the profitable diversification move into the meat processing business of Thomas Borthwick and Sons; our long-term investment in refining and significant expansion of our factories in 1997/98.

Since Mackay Sugar was formed in 1988, Graham devoted a large share of his life to the business and along with the Chief Executive Officer Dr. Ron Swindells, who also finished with the Co-operative in January of this year, established a solid base for Mackay Sugar on which we can build our future.

The Board and members of Mackay Sugar owe an enormous debt to both gentlemen for their contributions to Mackay Sugar and most particularly for the courage they displayed when leading us through some very tough decisions for the business in the last couple of years.

Both Ron and Graham had the vision to see the larger picture and recognised that there needed to be a fundamental change to the way Mackay Sugar went about its business. The current Board, staff and members must not lose sight of that ‘big picture’ or we will undo all the hard work put in by Graham and Ron.

That said, for the next couple of years the Board and staff must pay real attention to the detail that makes up that ‘big picture’.

One good example of this is the program being implemented during the 2003 season by the new Chief Executive Officer John Pollock that focuses on attracting Queensland Sugar Limited (QSL) bonuses for sugar produced from each of our factories.

The potential financial rewards to Mackay Sugar for paying attention to detail on the production side are quite significant. Under the current scheme operated by QSL, additional payments for sugar that surpasses the quality standards in nine areas could be available to Mackay Sugar each week of the crushing season. However, this focus on producing quality sugar must also be accompanied by initiatives to improve cane quality along with renewed efforts to reduce the loss of sugar during the process.

The Board and staff must also continue to pay increased attention to detail in every area of the business, so that the cost of our operation remains under tight control. Doing all the small things well and cost effectively is the most important ingredient of the ‘big picture’ outcome of making Mackay Sugar competitive in the longer term. As I indicated earlier, we do have a very good base to work from, but the Board and staff must not become complacent or that base will be quickly eroded.

Our move to the One Team Alliance with Transfield Services is already showing encouraging signs of meeting our targeted improvement in safety along with the reduction in costs.

From a slightly different perspective, one outcome of the Transfield Services Alliance has been that many staff and employees left the employ of Mackay Sugar. Many of these people had been with us over a very long period of time and have given Mackay Sugar and the Co-operatives that preceded the Mackay Sugar merger, loyal and dedicated service.
On behalf of the Board I want to acknowledge in this report the contribution made by them to our business.

Of equal significance to the start of our workplace alliance with Transfield Services during the past year has been the formation of the Mackay Sugar Industry Partnership (MSIP). Based on similar alliance principles, the MSIP comprises Mackay Sugar, CANEGROWERS and CANEHARVESTERS. For too long the relationship between industry participants in our region has been adversarial and this has served to build ‘roadblocks’ in the pursuit of the best outcome for all industry stakeholders.

The MSIP is committed to working together to ensure a prosperous industry in our region. As indicated in the joint circular mailed out in May, the partnership aims to bury past differences and work together to improve the profitability of all three sectors in the Mackay region. The basis for the partnership is the acceptance that no one sector is capable of solving the district’s problems.

While recognizing that a return to ‘normal weather conditions’ will do more than anything else to restore production levels we believe that further gains can be achieved by the uptake of new varieties and small incremental changes in farming, irrigation, harvesting, transport and milling activities. These changes along with the development of a rewards system for cane quality have the greatest potential to improve the profitability of all three industry sectors.

In February, a Special General Meeting of the Co-operative was called to seek the approval of co-operative members to pursue opportunities to increase our share of the refining business by purchasing Man’s 25% equity.

Members voted overwhelmingly in favour. Unfortunately, the downturn in crop prospects during the months following the meeting along with delays in finalising the refinancing of our existing bank facilities meant that the Board formed a view in May that it would not be prudent to seek to further increase our debt levels at the time.
At the time of writing this report there has not been any announced sale of the Man PLC share.

During February a postal ballot was conducted to elect a new Director to replace Graham Davies, and Richard Galea was the successful candidate from a field of six. It is encouraging and, I believe, augurs well for the future of our Co-operative to see such interest in serving on the Board, particularly during the difficult circumstances we have been encountering.

In May, Ian Donaldson retired from the Board. Originally Ian was the Queensland Government nominee to the Board when Mackay Sugar was formed in 1988. As a senior partner in the Hall Chadwick group, he brought to the Board a wealth of knowledge and experience in accounting, taxation and financial matters. In the Board room, Ian’s comments were always considered and respectful. He consistently pointed out that our weakness of not being able to raise equity capital would slow the development of Mackay Sugar.

The difficulties we have encountered in our attempts to purchase the Man PLC share of the refining business have further highlighted the shortcoming referred to by Ian and again shows that we will always have problems raising capital to move into any profitable alternative to raw sugar production.

I am pleased to report that we have now completed the re-financing for the business. The effect of this is that we now have one major banker rather than the three we had been involved with previously. Rabobank, a Dutch co-operative bank that specialises in agricultural businesses, are now our term debt bankers and I look forward to a long and successful relationship with them. The early signs are very positive. Rabobank understands our business and the effect that uncontrollable influences such as climate can have on our results. National Australia Bank continues to operate our day to day banking.

During the 2002/2003 reporting period, the State and Federal governments announced a sugar industry reform package that promised some assistance to help the industry through the current troubled times. Unfortunately, the entire package has become the subject of a political stand-off between the two governments with no solution evident.

For me the whole process has again highlighted the fact that we must control our own future. We are in the fortunate position of being able to use the structure of our Co-operative as the means for bringing together the growing, harvesting and milling sectors of the local industry to find our own solutions. Quite obviously though, an improved price outlook and crop will deliver the quickest turnaround for us.

It is fair to say though, that our business is again under pressure as we combat the combination of a grim price outlook and a disappointingly low crop that comes as a result of the drought. What gives me encouragement for the future though, is this year’s clear demonstration of the resilience of farmers in the face of adversity. There would have been plenty of good reasons to expect our area planted for the 2004 crop to be well down on average. However, early indications are that in reality, farmers have ‘bitten the bullet’ and planted a large area giving us the best possible chance of a good crop next year. The Board and staff must match this commitment to the future shown by our growers by doing all we can to optimise next year’s milling performance.

C E (Eddie) Westcott, Chairman.
Crop recovers late
Late rain (just prior to the crush) meant that the 2002 crop, originally estimated at 5.7 million tonnes improved to 6.253 million tonnes. This represented a 24.7 percent improvement on the disappointing 2001 crop.

Combining with this crop improvement was another very healthy CCS average for the year of 14.57 units. As a result of these two factors, Mackay Sugar’s production of IPS sugar also increased significantly on the previous season to 933 347 tonnes (up 23.5 percent).

The average cane yield of 78.72 tonnes per hectare, although well up on the previous year still fell significantly short of the much sought-after 100 tonnes per hectare that the district had achieved through the late nineties.

Sugar Produced
The sugar yield for the district was 11.75 tonnes per hectare compared to 9.15 tonnes in 2001/02. The 1.4 percent lower CCS for the 2002/3 season was more than compensated by the increase of 1.24 million tonnes of cane above the 2001 season. The crop of 6.253 million tonnes at a CCS 14.57 produced 933 347 tonnes of IPS sugar, an increase in sugar production of 23.5 percent.

Crushing Rate & Lost Time
A three-factory operation was implemented for the 2002/03 crushing season. Factory lost time at the three operating mills saw an overall increase on that of the previous year. Marian had an increase from 5.93 percent to 7.67 percent and Racecourse from 2.98 percent to 3.96 percent of the available time. Against the trend Farleigh managed to reduce its factory lost time from a high 8.77 percent in 2001 to 5.33 percent.

The major areas of disruption at Marian were the repeated failure of the bagasse slat conveyor, a gear shaft failure on B1 mill gearing and a broken roller on that mill. At Racecourse, breakages of mill rollers dominated the lost time with three having to be replaced during the crushing season.

Farleigh’s improved performance was marred by one significant event of a bearing failure on number one mill gearing with repairs taking 45 hours to be completed.

As a result of the improving crop, a decision was taken to operate Pleystowe as a liquor mill for the last eleven weeks of the season. This allowed the three crushing factories to maximise their throughput of cane towards the end of the year when high CCS levels would have otherwise been a limiting factor. Rated a success, the Pleystowe liquor operation was equivalent to a crushing rate of approximately 200 tonnes per hour, and equated to a total throughput of just over 360,000 tonnes of cane. Effectively, this reduced the overall season length by eight days.

Sugar Produced
The sugar yield for the district was 11.75 tonnes per hectare compared to 9.15 tonnes in 2001/02. The 1.4 percent lower CCS for the 2002/3 season was more than compensated by the increase of 1.24 million tonnes of cane above the 2001 season. The crop of 6.253 million tonnes at a CCS 14.57 produced 933 347 tonnes of IPS sugar, an increase in sugar production of 23.5 percent.

Factory Efficiency
Measured sugar losses from the process streams of bagasse and molasses increased during the 2002 crush while sugar lost to mud showed a slightly improved result. Here, Marian effluent operator Doug Sankowsky collects a sample of mill mud from the filters.
Sugar Quality

Net earnings from the QSL raw sugar quality scheme improved from a penalty of $0.97 per tonne of sugar in 2001 season to a bonus of $1.53 per tonne in the year under review. By far the most outstanding result was achieved at Farleigh with net bonuses of $3.63 per tonne of sugar. Farleigh’s performance was the second best in the state with 77 percent of the sugar produced meeting the premium standard. Sugar produced at the other factories Pleystowe, Racecourse and Marian achieved premium compliance of 44 percent, 27 percent and 11 percent respectively.

Molasses Production

“Molasses percent cane” for the year of 3.28 was high with a total production of 213 223 tonnes including 8 284 tonnes from the refinery operations. The demand for molasses was extremely high due to drought conditions over much of eastern Australia.

A sudden and significant rise in molasses percent cane, coupled with a better than predicted final crop tonnage caused critical pressure on regional molasses storage. This was addressed by utilizing spare storage capacity at Proserpine Mill, the opening of spot sales and by CSR maximizing storage opportunity at their Sarina distillery. Export sales alone proved to be an inadequate control measure for such a sudden late season increase in molasses production.

Despite record quantities of molasses stored for the non-crush, contractor and shareholder demand was only just satisfied, chiefly because most contractors had delayed taking delivery of the majority of their allocated tonnages until that time.
The move to an alliance

Faced with a world market outlook for sugar that suggested sugar prices into the future would not return to previously profitable levels, the Board of Mackay Sugar is determined to re-position the business to be sustainable in the new price environment.

The key plank in the new structure has been the move into an alliance with Transfield Services. Under the terms of this Alliance, Transfield Services has assumed responsibility for maintenance and cane transport operations as well as some support functions.

The first step in the journey of change that led to the alliance with Transfield Services was taken by the Board back in July 2002 with the appointment of consultants Hatch to undertake a full review of the Mackay Sugar business.

The Board set in place five cornerstones for the review, namely:

- Assist in the identification of a figure in excess of $10 million in sustainable cost savings;
- The cost saving initiatives were to be in place by July 2003, with a full realisation of the savings by June 2004;
- Minimum capital expenditure;
- Maintenance of industrial harmony; and
- Safe implementation.

The Hatch approach involved engaging as many Mackay Sugar employees as possible to play a part in the review. A Working Group with a membership of workplace representatives was established to ensure involvement in the process by all sectors of the workforce.

Progress and issues were referred to a Steering Committee comprising senior management representatives from Mackay Sugar and senior trade union officials.

Hatch reported their findings and recommendations for the business to the Board of Mackay Sugar in October 2002.

The Hatch report stated that Mackay Sugar could no longer afford evolutionary change and therefore needed to be bold in the way forward. The recommendations were built around a core strategy of introducing an alliance for maintenance, engineering and cane transport operations.

Hatch concluded that the alliance would become a powerful vehicle for dramatic change and therefore would best meet Mackay Sugar’s requirements.

The primary recommendations were as follows:

- **Commence revolutionary change**
  - Improve capital utilisation and effectiveness;
  - Commit to alliancing a major part of the business.
- **Entrench flexible and adaptable behaviour**
  - Use the alliance to introduce new behaviours;
  - Revamp leadership and communications.

An important outcome of Mackay Sugar’s strategy in choosing to move into an alliance with Transfield Services was to provide better opportunities for Mackay Sugar employees to concentrate on, and improve the performance of its core business, the production of sugar. Sugar boilers Les Brockhurst (above) and Elizabeth Stevenson play important roles in the production of high quality sugar at Mackay Sugar’s Marian mill.
The number one key objective for the One Team Alliance is zero harm to people. Health, Safety and Environment Co-ordinator Allison Williams (left) explains the importance of the 'Job Start' safety analysis to apprentice fitters Sean Rowe and Brendan Vella (right).

Production of premium quality sugar is a team effort. Shift supervisors at each of Mackay Sugar's mills play an important role in moulding teamwork. Darren Hoey (left), one of the team ofugal operators at Marian Mill is pictured here with shift supervisor Richard Badger.

HS&E Co-ordinators at each of the Mackay Sugar sites are involved in all aspects of work activity. Here, fabrication tradesperson Don Nielson (left) and boilermaker apprentices Neil Muscat and Matthew Attard discuss a safe approach to an upcoming task with Allison Williams (right).

The Board voted to adopt the Hatch recommendations and later, in conjunction with Transfield Services, a business plan for the Alliance was developed.

This was considered by the Board in November and following approval of the plan a Memorandum of Understanding was entered into by Mackay Sugar and Transfield Services with a goal of starting the Alliance on March 1, 2003.

This goal was met with the “One Team” Alliance officially in place on March 1. Three hundred and thirty-six former Mackay Sugar employees accepted positions with Transfield Services in the Alliance with one hundred and seventy remaining in the employ of Mackay Sugar. A total of 54 employees became redundant or chose to leave during this process.

The Alliance operates under the One Team Charter with the vision of working as one team to achieve excellence in the processing of sugar cane along with the delivery of maintenance, cane transport and support services.

The Alliance Charter’s first Key Objective is zero harm to people.

As a result, a heightened focus on developing a safer working environment for all employees is already delivering a significant improvement in the Lost Time Injury Frequency Rate (see accompanying graph).

<table>
<thead>
<tr>
<th>Year</th>
<th>LTIFR (Lost time injuries per million hours worked)</th>
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<tbody>
<tr>
<td>98/99</td>
<td>25.0</td>
</tr>
<tr>
<td>99/00</td>
<td>18.8</td>
</tr>
<tr>
<td>00/01</td>
<td>23.1</td>
</tr>
<tr>
<td>01/02</td>
<td>18.8</td>
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<tr>
<td>02/03</td>
<td>12.0</td>
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</table>

The lost time injury frequency rate (LTIFR) for 2002/03 of 12.0 was less than half that recorded just three years ago. Hopes are high for this significant improvement to continue with the number one key objective of the new One Team Alliance being zero harm to people.

• Take control and implement performance based management
  • Establish a clear and well understood view of the future;
  • Establish a long term strategic plan;
  • Adapt / grow the core business with alliance support.

Pictured signing the historic Memorandum of Understanding to begin the Alliance is former Mackay Sugar Chairman Graham Davies (right) and Transfield Services General Manager Strategy and Development, Ted Wziontek.
Workplace safety remained a strong management focus, with Sugar Australia ending its year with only one lost time injury recorded, and New Zealand Sugar Company coming into its third year without lost time injury.

Both the Australian and New Zealand currencies appreciated strongly against the American Dollar and this adversely affects profitability, directly for exports and blends operations and indirectly because of the impact on customers’ production of foodstuffs for export.

The joint venture management team continues to explore new business and growth opportunities, and to find and implement cost reduction opportunities, in order to maintain and improve profitability.

Sugar Australia and the New Zealand Sugar Company, twenty-five percent owned by Mackay Sugar both produced very good results in their 2002/03 operating year. Directors of Mackay Sugar were guests of the New Zealand Sugar Company during the year as they inspected facilities at the Chelsea refinery and various other company locations in New Zealand.
### Six-year Financial Performance

#### Production

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<tbody>
<tr>
<td>Tonnes cane milled</td>
<td>6,252,708</td>
<td>5,015,670</td>
<td>4,662,553</td>
<td>6,627,533</td>
<td>7,776,198</td>
<td>7,443,172</td>
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<tr>
<td>Sugar content - CCS (i)</td>
<td>14.57</td>
<td>14.77</td>
<td>12.60</td>
<td>13.50</td>
<td>12.12</td>
<td>14.28</td>
</tr>
<tr>
<td>Tonnes sugar produced - IPS (ii)</td>
<td>933,347</td>
<td>755,866</td>
<td>590,845</td>
<td>915,597</td>
<td>967,167</td>
<td>1,076,672</td>
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#### Profit & Loss ($’000)

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<tbody>
<tr>
<td>Operating revenue</td>
<td>290,546</td>
<td>272,115</td>
<td>167,056</td>
<td>256,082</td>
<td>355,229</td>
<td>453,578</td>
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<tr>
<td>Net interest</td>
<td>4,470</td>
<td>5,441</td>
<td>6,389</td>
<td>4,255</td>
<td>3,954</td>
<td>4,613</td>
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<tr>
<td>Depreciation</td>
<td>10,841</td>
<td>17,376</td>
<td>17,082</td>
<td>16,479</td>
<td>17,740</td>
<td>13,869</td>
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<tr>
<td>Operating profit/(loss) (iii)</td>
<td>11,595</td>
<td>(1,219)</td>
<td>(14,285)</td>
<td>(7,104)</td>
<td>19,132</td>
<td>22,571</td>
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<tr>
<td>Retained profits</td>
<td>192,250</td>
<td>179,672</td>
<td>180,891</td>
<td>195,176</td>
<td>202,280</td>
<td>193,148</td>
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#### Balance Sheet ($’000)

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<tbody>
<tr>
<td>Current assets</td>
<td>52,020</td>
<td>34,223</td>
<td>32,526</td>
<td>46,791</td>
<td>73,748</td>
<td>108,139</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>339,357</td>
<td>358,086</td>
<td>459,080</td>
<td>440,081</td>
<td>448,935</td>
<td>435,750</td>
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<tr>
<td>Total assets</td>
<td>391,377</td>
<td>392,309</td>
<td>491,606</td>
<td>486,852</td>
<td>522,683</td>
<td>543,889</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>112,795</td>
<td>104,957</td>
<td>99,967</td>
<td>69,460</td>
<td>112,057</td>
<td>121,272</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>3,734</td>
<td>25,082</td>
<td>41,122</td>
<td>52,590</td>
<td>38,719</td>
<td>59,842</td>
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<tr>
<td>Total liabilities</td>
<td>116,529</td>
<td>130,039</td>
<td>141,089</td>
<td>122,050</td>
<td>150,776</td>
<td>181,114</td>
</tr>
<tr>
<td>Total members’ equity</td>
<td>274,848</td>
<td>262,270</td>
<td>350,517</td>
<td>364,802</td>
<td>371,907</td>
<td>362,775</td>
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#### Capital Expenditure ($’000)

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<tbody>
<tr>
<td>Expenditure</td>
<td>2,688</td>
<td>5,344</td>
<td>5,631</td>
<td>18,686</td>
<td>21,613</td>
<td>53,122</td>
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#### Ratios

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<tbody>
<tr>
<td>Net interest cover (times)</td>
<td>3.59</td>
<td>0.78</td>
<td>(1.24)</td>
<td>(0.67)</td>
<td>5.84</td>
<td>5.89</td>
</tr>
<tr>
<td>Return on members’ equity (i)</td>
<td>4.58%</td>
<td>(0.46)%</td>
<td>(4.08)%</td>
<td>(1.95)%</td>
<td>5.14%</td>
<td>6.22%</td>
</tr>
<tr>
<td>Net debt : members’ equity</td>
<td>21.97%</td>
<td>32.00%</td>
<td>28.60%</td>
<td>20.74%</td>
<td>15.37%</td>
<td>20.91%</td>
</tr>
<tr>
<td>Current assets : current liabilities</td>
<td>0.46</td>
<td>0.33</td>
<td>0.33</td>
<td>0.67</td>
<td>0.56</td>
<td>0.89</td>
</tr>
<tr>
<td>Members’ equity : total assets</td>
<td>0.70</td>
<td>0.67</td>
<td>0.71</td>
<td>0.75</td>
<td>0.71</td>
<td>0.67</td>
</tr>
<tr>
<td>Total assets : total liabilities</td>
<td>3.36</td>
<td>3.02</td>
<td>3.48</td>
<td>3.99</td>
<td>3.47</td>
<td>3.00</td>
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**Note:** The financial comparatives for the year 1 July 1996 to 30 June 1998 include the results of the refinery joint ventures. Due to a change in accounting requirements the refinery joint venture financial results have been excluded from a number of the comparatives for the years ended 30 June 1999 onwards.

(i) CCS/Commercial Cane Sugar is the percentage of sugar cane recoverable as raw sugar.

(ii) Operating profit/(loss) before additional price paid for cane and Income Tax.

(iii) IPS: International Palm Scale, a measure of the commercial value of raw sugar.

Control Analyst Wendy Roberts is shown here at the sugar sampler at Marian Mill. Newly established as part of the higher quality production drive, the sampler allows sugar to be regularly tested for its conformity to the nine quality parameters for premium sugar set by Queensland Sugar Limited.
Directors’ Report

The Directors present their report and the financial statements of the Mackay Sugar Co-operative Association Limited for the year ended 30 June 2003.

In terms of the Co-operatives Act 1997 (Qld), the Association has complied with the requirements of the Corporations Act 2001 in the presentation of this report and the associated financial statements.

Directors

The names and profiles of Directors in office from 1 July 2002 to the date of this report follow. A record of Board Meeting attendance during the year under review is set out on page 12.

C E (Eddie) Westcott - Chairman
Elected Director since incorporation and Chairman since December 2002. Cane producer for more than 30 years with wide experience in co-operative sugar milling matters. Director of Sugar Australia Pty Ltd, New Zealand Sugar Company Ltd, Queensland Sugar Ltd and the Co-operative Federation of Queensland.

B B (Barry) Sheedy FC&P A (Ret.)
Deputy Chairman
Elected Director since 1996. Varied sugar industry experience including management of the Farleigh Co-operative Sugar Milling Association Ltd and Manager Finance & Administration of Mackay Sugar. Miller’s representative on the Mackay Cane Protection and Productivity Board and a Mackay City Councillor.

A (Andrew) Barfield B.Ag.Sc MBA GAICD

A S (Andrew) Cappello
Elected Director since 2001. Cane producer for 20 years. Chairman of Pioneer Valley Water Board, Director of the Australian National Committee for Irrigation and Drainage Board, Member of the SunWater Customer Council and Rural Water Use Efficiency Management Group, Miller’s representative on the Mackay Cane Protection and Productivity Board.

G R (Graham) Davies (to 19 December 2002)
Elected Director and Chairman since incorporation of Mackay Sugar Co-operative Association Ltd in 1988 until standing down as Chairman following the 2002 Annual General Meeting. Cane and cattle producer with wide experience in sugar industry organisational matters. Chairman of the Queensland Rural Adjustment Authority and Mackay Sugar Manufacturers Association. Director of Sugar Australia Pty Ltd, New Zealand Sugar Company Ltd, Queensland Sugar Ltd and Mackay Port Authority.

I W (Ian) Donaldson FCA (to 1 May, 2003)
Independent Director since incorporation. Immediate Past Chairman of Hall Chadwick Queensland (Chartered Accountants), Chairman of City Pacific Limited Group, Performance Plus Funds Management Limited, Brooklyn Park Olive Groves Ltd, Australian Green & Gold Ltd, Four Wheel Drive Services Pty Ltd, and the Leukaemia Foundation of Australia.

I L (Ian) Fraser FC&P A FAICD
Independent Director since February 1999. Extensive business experience including Managing Director of Pioneer Sugar Mills Ltd, Clyde Industries Ltd, Australian Chemical Holdings Ltd and TNT Australia Pty Ltd. Currently Chairman of The Gas Market Company Ltd, Environmental Recovery Services Ltd, Forest Place Group Ltd, and a Director of PMP Ltd.

R S (Richard) Galea B.Com
(from 28 February, 2003)
Elected Director by postal ballot in February 2003 to fill the vacancy created by the resignation from the Board of Mr. G R Davies. Returned to manage family farming interests in 1994 after qualifying as a Chartered Accountant.

M F D (Malcolm) Pratt
Elected Director since 1991. Cane producer for some 35 years with broad experience in sugar industry and regional water resources organisational matters. Member of Mackay Regional Water Resources Committee.

M A (Albert) Volker
Elected Director since incorporation. Cane producer for 35 years with wide experience in co-operative sugar milling matters. Miller’s representative on and Deputy Chairman of the Mackay Cane Protection and Productivity Board. Member Mackay Regional Water Resources Committee.
Coupled with the ongoing cost reduction strategies detailed elsewhere in this report, this enabled the Association to return to profit for the first time since 1998/99. Operating profit was $11.595 million. This represents a $12.814 million improvement on the 2001/02 result of a $1.219 million operating loss.

The Concise Financial Statements at pages 18 to 22 of this Report and the Discussion & Analysis regarding those statements at page 17 further explain the Association’s operating result for the year under review.

Changes in State of Affairs

There was no significant change in the state of affairs of the Association other than those advised in other sections of this report, or in the accounts or in the notes thereto.

After Balance Date Events

On the 29th August 2003, the Association finalised agreements to repay all of its $66 million of borrowing from Queensland Treasury Corporation and replace it with borrowings of $54 million from its commercial lender (Rabo Australia Limited).

Future Developments

The Board continues to explore ideas and projects to advance the Association. However, until any such idea becomes a firm commercial proposal, untimely and early disclosure could result in unreasonable prejudice to the Association.

### Board Meeting Attendance

<table>
<thead>
<tr>
<th>Director</th>
<th>Regular Meetings</th>
<th>Special Meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Held(a)</td>
<td>Attended(b)</td>
</tr>
<tr>
<td>C E Westcott</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>B B W Sheedy</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>A Barfield</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>A S Cappello</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>G R Davies</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>I W Donaldson</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>I L Fraser</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>R S Galea</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>M F D Pratt</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>M A Volker</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

(a) Meetings held while a member. (b) Meetings attended.
Directors’ Report

Environmental Issues
Mackay Sugar is subject to environmental regulations under various State and Federal laws primarily relating to emissions to air and discharges to water and land.

During the season under review the Association generally complied with all relevant environmental legislation with no liquid effluent discharge from effluent ponds at Marian, Pleystowe or Racecourse.

Algal growth in the final treatment ponds at Farleigh resulted in one incidence of discharge with excess suspended solids however no environmental harm was observed.

An accidental loss of untreated effluent occurred at Marian due to a valve failure. The loss was contained and recovered and no environmental harm was observed.

Mackay Sugar has been operating under a five year Environmental Management Plan (EMP) in relation to non-compliant emissions from the Farleigh and Pleystowe boiler stacks.

Mackay Sugar and the Environmental Protection Agency (EPA) have successfully negotiated a milestone extension of the EMP.

However, financial constraints arising from another year of poor crops and sugar returns are straining our ability to meet some of these milestones.

Renewed negotiations with the EPA are now focused on strategies to meet our environmental obligations within the current financial constraints.

Joe Fenech (right) and Anthony Perron (centre) help Health, Safety and Environment Co-ordinator Allison Williams prepare a barricade identifying an unsafe area until permanent remediation work can eliminate the hazard.
Corporate Governance

The Board of Directors of Mackay Sugar is responsible for the corporate governance of the Association and the following statement outlines the principal governance practices in place during the financial year under review.

(a) Board of Directors

In accordance with the rules of the Association the Board is comprised of nine non-executive Directors, seven of whom are elected by shareholders and two "...with special skills, whose services are considered to be of benefit to the Association..." appointed by the elected Board members.

Elected Directors serve on the Board for three years, with elections being held in each consecutive year of each three year period for the two directors, two directors, and three directors respectively who shall have been longest in office. Elections are conducted at each Annual General Meeting.

(b) Board Responsibilities

The Board of Directors guides and monitors the business and affairs of Mackay Sugar on behalf of shareholders ensuring they are conducted in a proper manner. The Board is responsible to shareholders for:

- the overall performance of Mackay Sugar and the charting of its direction and objectives;
- developing the strategies and policy guidelines to achieve these objectives;
- monitoring key performance indicators of the business;
- maintaining a high standard for accountability for all activities of Mackay Sugar including compliance with laws and ethical behaviour;
- ensuring that risks are identified and that appropriate risk management procedures are in place; and
- protecting shareholders' interests and making sure they are kept fully informed.

In fulfilling this role the Board oversees compliance with the requirements of the regulators and ensures that appropriate risk management and associated internal controls are in place. The Board may delegate authority to management, but not responsibility.

Current practice calls for the Board to meet eleven times during the year at approximately monthly intervals. However this may be varied by the Directors who can also add other meetings when deemed necessary.

During the year under review, in addition to twelve regular meetings, four special Board meetings considered issues including the Hatch business review and subsequent Transfield Services Alliance.
(c) Board Committees

Although the Board generally operates as a whole across the range of its responsibilities, Directors also serve on one or more of the eight committees set up to support the Board in its work and to provide a more detailed focus for its governance responsibilities.

The role of these committees is to consider in advance or in more detail, matters subsequently addressed by the whole Board.

The membership of these committees as at 30 June 2003 and a brief description of their respective roles follows. Where appropriate the committees also have senior management as members.

- The Audit Committee is comprised of Messrs I L Fraser, A Barfield, M F D Pratt and B B Sheedy and assists the Board in fulfilling its financial responsibilities relating to the general accounting practices of the Association. The committee serves as an independent and objective party to review the financial information presented by Mackay Sugar to shareholders, regulators and the general public and determines the adequacy of the Association’s operating, accounting and audit controls.

- The Finance Committee establishes corporate governance of the Association’s financial functions not covered by the Audit Committee. With Messrs C E Westcott, B B Sheedy, A S Cappello and R S Galea as Director members, this committee reviews operating and capital budgets prior to submission to the Board and monitors Mackay Sugar’s overall financial position regarding net debt, borrowing and interest rates. Long-term planning responsibilities include ensuring financial forecasts are consistent with the Strategic Plan, and that sufficient funding is available to meet Association needs.

- The Compliance Committee has Messrs I L Fraser, A S Cappello, B B Sheedy and M A Volker as members. It helps Mackay Sugar identify laws and regulations which apply to the Association, and to oversee the development of processes to ensure compliance with these laws and regulations.

- The Structure/Ownership Shares Committee has Messrs C E Westcott, A Barfield and M F D Pratt as members. This committee is charged with investigation of alternative models and changes which would ensure that the structure of the Association remains appropriate to changing circumstances.

- The Remuneration Committee has Messrs C E Westcott, B B Sheedy and A Barfield as members and reviews remuneration policies and procedures and establishes staff salary packages.

- The Water Conservation Committee includes Messrs M F D Pratt, R S Galea and M A Volker as Director members and aims to increase supplies of affordable irrigation water for the Mackay Sugar area.

- The Annual Report Committee comprises Messrs C E Westcott, A Barfield, A S Cappello and M F D Pratt and is responsible for the production and legislative compliance of this report.

- The Siding Committee comprises Messrs B B Sheedy, R S Galea, M A Volker and A S Cappello and is responsible for addressing matters dealing with the maintenance and construction of sidings, the efficient transport of cane to the mills, bin conversions and property matters.

(d) Risk Management

In order to ensure that key business and financial risks which could affect Mackay Sugar are effectively managed, the Association has in place a management program for Mackay Sugar’s people, processes and property. This is operated in conjunction with Transfield Services.
(e) Management Structure
The management of the Association, its operations and administration, is delegated by the Board to the Chief Executive, who is supported by a team of managers.

This team operates within an agreed framework of strategic plans, budgets, targets, standards and policies approved by the Board which maintains appropriate services, procedures and internal mechanisms to ensure that management and employees act efficiently and in the best interests of shareholders.

(f) Code of Ethics
Mackay Sugar is committed to maintaining the highest ethical standards in all of its operations. Directors and employees are expected to act with the utmost integrity and objectivity to maintain the Association’s reputation.

Indemnification of Officers
The Association has paid premiums to insure Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting for the Association, other than conduct involving a wilful breach of duty in relation to the Association.

Rounding of Amounts
The Association has applied the relief available to it in Australian Securities Investment Class Order 98/100 and, accordingly, amounts in this report and associated financial statements have been rounded to the nearest thousand dollars where appropriate.

Signed at Mackay on behalf of the Board this twenty-fifth day of September 2003.

C E Westcott
Chairman

B B Sheedy
Deputy Chairman

Senior Field Officer Gary Foyle takes a stint in the Mackay Sugar Com Centre. The Com Centre is the main hub for communication between field officers and the harvest and transport sector during the crush. In addition field officers are called on to attend to specific consignment and road transport issues as they arise in the field.
Concise Financial Report

Discussion & Analysis of Financial Statements
The financial statements and disclosures in the following concise financial report have been derived from the 2002/03 Financial Report of Mackay Sugar Co-operative Association Limited. A copy of the full financial report and auditor’s report will be sent to any member, free of charge, upon request.

This discussion and analysis is provided to assist members to understand the following financial report.

Statement of Financial Performance
The net profit before income tax for the 2002/03 financial year is $11.595 million. This has been adjusted by a tax benefit of $0.983 million arising from the transfer of some employee entitlements to Transfield Services. The net profit after income tax for the 2002/03 financial year was $12.578 million which was an improvement of $13.797 million on the previous year’s result. There was no movement in the asset revaluation reserve during the year.

The milling business improved significantly compared with the near break-even level of the previous year. The 2002 season crop at 6.253 million tonnes was up almost 25% on the 2001 crop. The improved result was achieved despite a significant reduction in the sugar price by $54.90 per tonne IPS sugar with the price paid by Queensland Sugar Limited for the 2002 season crop of $276.70 per tonne IPS sugar, compared with the 2001 season’s price of $331.60 per tonne.

The refining business in both Australia and New Zealand recorded increased earnings over the previous year due to improved margins and increased sales.

Corporate costs increased due to business restructure and transition costs associated with the Transfield Services Alliance, whilst finance costs reduced due to lower interest rates and lower levels of debt. Corporate and finance costs are not allocated to the milling and refining business units.

Depreciation for the 2002/03 financial year of $10.841 million was down 37.6% on the previous year. This occurred due to the reduction in the asset base following the devaluation in the previous year. During the financial year, the depreciation method was changed from a time basis to an output basis, which also resulted in a reduced depreciation. This change was made to reflect a more realistic depreciation level due to the partial closure of Pleystowe Mill.

Statement of Financial Position
Total Members Equity increased by $12.578 million to $274.848 million as at the 30th June 2003 due to the net profit result for the year.

Provisions reduced by $5.776 million to $3.672 million as at the 30th June 2003, mainly due to the transfer of some employee entitlements to Transfield Services.

Other than this, there were no major changes to the Statement of Financial Position.

Statement of Cash Flows
Cash flows from operating activities increased by $2.6 million to a surplus of $20.9 million due mainly to a reduction in interest paid and an increase in the distributions received from the refining business. Capital expenditure was again tightly controlled at $2.5 million compared with the previous year at $5.1 million. The Sugar Australia joint venture’s cash flow was $2.5 million in excess of its profit which was similar to the previous year’s figure of $2.4 million. This shows in the cash flow as an investing activity as it reduces the value of our refining investment.

Movements from financing activities were made up of an $8.0 million reduction in Interest Bearing Deposits, repayments by shareholders of plant loans of $3.5 million and repayment of a loan owing to Rabobank of $5.0 million. Cash on hand increased by $14.3 million to $25.3 million. Net debt decreased by $23.8 million to $60.4 million. Net debt was made up of QTC Loans of $66.0 million and IBDs of $26.1 million, offset by Grower Loans of $6.4 million and Cash of $25.3 million.
### Statement of Financial Performance
for the year ended 30 June 2003

<table>
<thead>
<tr>
<th>Note</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>$'000</td>
<td>$'000</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>276 120</td>
<td>258 842</td>
</tr>
<tr>
<td>Cane purchases and allowances</td>
<td>(173 025)</td>
<td>(168 737)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>103 095</td>
<td>90 105</td>
</tr>
<tr>
<td>Other revenues</td>
<td>5 331</td>
<td>5 357</td>
</tr>
<tr>
<td>Maintenance</td>
<td>(30 855)</td>
<td>(30 717)</td>
</tr>
<tr>
<td>Operating</td>
<td>(29 223)</td>
<td>(22 246)</td>
</tr>
<tr>
<td>Overheads</td>
<td>(29 066)</td>
<td>(27 459)</td>
</tr>
<tr>
<td>Borrowing expenses</td>
<td>(5 941)</td>
<td>(6 799)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(10 841)</td>
<td>(17 376)</td>
</tr>
<tr>
<td>Share of net profits of associates and joint ventures accounted for using the equity method</td>
<td>9 095</td>
<td>7 916</td>
</tr>
<tr>
<td><strong>Profit (Loss) from ordinary activities and before income tax</strong></td>
<td>11 595</td>
<td>(1 219)</td>
</tr>
<tr>
<td>Income tax expense relating to ordinary activities</td>
<td>983</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Profit (Loss) from ordinary activities after income tax expense attributable to members of the Co-operative</strong></td>
<td>12 578</td>
<td>(1 219)</td>
</tr>
<tr>
<td>Net increase (decrease) in asset revaluation reserve</td>
<td>-</td>
<td>(87 028)</td>
</tr>
<tr>
<td><strong>Total changes in equity other than those resulting from transactions with owners as owners</strong></td>
<td>12 578</td>
<td>(88 247)</td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
**Statement of Financial Position**
as at 30 June 2003

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
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<tr>
<td>Cash</td>
<td>25 285</td>
<td>10 981</td>
</tr>
<tr>
<td>Receivables</td>
<td>18 036</td>
<td>14 053</td>
</tr>
<tr>
<td>Inventories</td>
<td>8 578</td>
<td>9 189</td>
</tr>
<tr>
<td>Other</td>
<td>121</td>
<td></td>
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<tr>
<td><strong>Total Current Assets</strong></td>
<td><strong>52 020</strong></td>
<td><strong>52 020</strong></td>
</tr>
<tr>
<td><strong>Non-Current Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>3 646</td>
<td>7 768</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>249 220</td>
<td>258 000</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>16 797</td>
<td>664</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>68 343</td>
<td>71 276</td>
</tr>
<tr>
<td>Intangibles</td>
<td>1 113</td>
<td>1 378</td>
</tr>
<tr>
<td>Other</td>
<td>238</td>
<td></td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td><strong>339 357</strong></td>
<td><strong>339 357</strong></td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>391 377</strong></td>
<td><strong>391 377</strong></td>
</tr>
<tr>
<td></td>
<td><strong>391 377</strong></td>
<td><strong>391 377</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>19 380</td>
<td>15 518</td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>92 108</td>
<td>85 073</td>
</tr>
<tr>
<td>Provisions</td>
<td>1 307</td>
<td>4 366</td>
</tr>
<tr>
<td><strong>Total Current Liabilities</strong></td>
<td><strong>112 795</strong></td>
<td><strong>112 795</strong></td>
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<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>1 369</td>
<td></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>-</td>
<td>20 000</td>
</tr>
<tr>
<td>Provisions</td>
<td>2 365</td>
<td>5 082</td>
</tr>
<tr>
<td><strong>Total Non-Current Liabilities</strong></td>
<td><strong>3 734</strong></td>
<td><strong>3 734</strong></td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES</strong></td>
<td></td>
<td><strong>116 529</strong></td>
</tr>
<tr>
<td><strong>NET ASSETS</strong></td>
<td><strong>274 848</strong></td>
<td><strong>274 848</strong></td>
</tr>
<tr>
<td><strong>MEMBERS' EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributed equity</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Asset revaluation reserve</td>
<td>82 597</td>
<td>82 597</td>
</tr>
<tr>
<td>Retained profits</td>
<td>192 250</td>
<td>179 672</td>
</tr>
<tr>
<td><strong>TOTAL MEMBERS' EQUITY</strong></td>
<td><strong>274 848</strong></td>
<td><strong>274 848</strong></td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
## Statement of Cash Flows
for the year ended 30 June 2003

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Inflows</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Outflows)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from sugar sales and other sales</td>
<td>272 796</td>
<td>258 186</td>
</tr>
<tr>
<td>Payments to members for cane supplied</td>
<td>(171 525)</td>
<td>(167 942)</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(86 895)</td>
<td>(75 679)</td>
</tr>
<tr>
<td>Distributions received from associated entities</td>
<td>9 500</td>
<td>7 544</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 471</td>
<td>1 358</td>
</tr>
<tr>
<td>Other revenue</td>
<td>1 514</td>
<td>1 663</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(5 941)</td>
<td>(6 799)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>20 920</td>
<td>18 331</td>
</tr>
</tbody>
</table>

Cash flows from investing activities

|                           |       |       |
| Proceeds from financial assets | 2 867 | - |
| Distributions received from associated entities | 2 527 | 2 409 |
| Payments for property, plant and equipment | (2 688) | (5 344) |
| Proceeds on sale of property, plant and equipment | 179 | 199 |
| **Net cash used in investing activities** | 2 885 | (2 736) |

Cash flows from financing activities

|                           |       |       |
| Repayment of borrowings   | (5 000) | - |
| Decrease in growers’ loans | 3 464 | (2 727) |
| Decrease in unsecured deposits | (7 965) | (12 916) |
| **Net cash provided by (used in) financing activities** | (9 501) | (15 643) |

Net increase in cash held | 14 304 | (48) |
Cash at 1 July 2002 | 10 981 | 11 029 |
**Cash at 30 June 2003** | 25 285 | 10 981 |

The accompanying notes form part of this concise financial report.
Notes to the Concise Financial Report
for the year ended 30 June 2003

Note 1: Basis of preparation of the Concise Financial Report

The concise financial report has been prepared in accordance with Accounting Standard AASB1039: Concise Financial Reports, and the Corporations Act 2001.

The financial statements, specific disclosures and other information included in the concise financial report are derived from and are consistent with the full financial report of Mackay Sugar Co-operative Association Limited. The concise financial report cannot be expected to provide as detailed an understanding of the financial performance, financial position and financing and investing activities of the co-operative as the full financial report.

With the exception of the Association’s accounting policy in respect of depreciation, the accounting policies have been consistently applied and are consistent with those of the previous financial year.

Depreciation: The association changed its accounting policy from 1 July 2002 and commenced depreciation of milling plant using the output based method and the remainder of Association assets remained on a straight line time basis. Due to the closure of one the Association’s mills (Pleystowe) this was approved by the Board of Directors as a more realistic measure of consumption of the future economic benefits of the assets. This change has had the effect of reducing the total depreciation charge recognised in the statement of financial performance by approximately $1.7 million for the year, when compared to the depreciation expense if all assets had remained on a straight line time basis.

In applying the output based method for allocating depreciable amounts, Mill factory plant and equipment assets have been depreciated on the basis of tonnes of cane crushed by each Association mill during the 2002 crushing season.

Note 2: Revenue

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$’000</td>
<td>$’000</td>
</tr>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>276 120</td>
<td>258 842</td>
</tr>
<tr>
<td>Share of associated companies operating profit</td>
<td>3 625</td>
<td>3 293</td>
</tr>
<tr>
<td>Share of joint ventures operating profit</td>
<td>5 470</td>
<td>4 623</td>
</tr>
<tr>
<td></td>
<td><strong>285 215</strong></td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>1 471</td>
<td>1 358</td>
</tr>
<tr>
<td>Other revenue</td>
<td>3 860</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td><strong>5 331</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Other Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>290 546</td>
<td>272 115</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>290 725</strong></td>
<td></td>
</tr>
</tbody>
</table>
Note 3: Events subsequent to Reporting Date

On the 29th August 2003, the Association finalised agreements to repay all of its $66 million of borrowing from Queensland Treasury Corporation and replace it with borrowing from its commercial lender (Rabo Australia Limited). The effect on the accounts of this transaction would be to alter the maturity date of interest bearing liabilities as shown below.

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>After Event</th>
<th>2003 Accounts</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Liabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>19 380</td>
<td>19 380</td>
<td></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>38 108</td>
<td>92 108</td>
<td>-54 000</td>
</tr>
<tr>
<td>Provisions</td>
<td>1 307</td>
<td>1 307</td>
<td></td>
</tr>
<tr>
<td>Total Non-Current Liabilities</td>
<td>-54 000</td>
<td>58 795</td>
<td>112 795</td>
</tr>
<tr>
<td>Non-Current Liabilities</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables</td>
<td>1 369</td>
<td>1 369</td>
<td></td>
</tr>
<tr>
<td>Interest bearing liabilities</td>
<td>54 000</td>
<td>-</td>
<td>+54 000</td>
</tr>
<tr>
<td>Provisions</td>
<td>2 365</td>
<td>2 365</td>
<td></td>
</tr>
<tr>
<td>Total Non-Current Liabilities</td>
<td>+54 000</td>
<td>57 734</td>
<td>3 734</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td></td>
<td>116 529</td>
<td>116 529</td>
</tr>
</tbody>
</table>

As part of the refinancing, the Association has changed from its previous negative pledge to a secured position. Rabo Australia Limited holds first registered security over all of Mackay Sugar’s assets and a second ranking charge over its interest in the refining joint venture.

Directors’ Declaration

The directors of Mackay Sugar Co-operative Association Limited declare that the concise financial report of the co-operative for the financial year ended 30 June 2003, as set out on pages 11 to 22:

(a) complies with Accounting Standard AASB 1039: Concise Financial Reports; and
(b) has been derived from and is consistent with the full financial report of Mackay Sugar Co-operative Association Limited.

This declaration is made in accordance with a resolution of the Board of Directors.

C E Westcott             I L Fraser
Chairman                 Director

Dated this twenty-fifth day of September, 2003.
26 September, 2003

Independent Audit Report to the Members of Mackay Sugar Co-operative Association Limited

Scope

We have audited the concise financial report of Mackay Sugar Co-operative Association Limited for the financial year ended 30 June 2003 in order to express an opinion on it to the members of the co-operative. The Association’s Directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of Mackay Sugar Co-operative Association Limited for the year ended 30 June 2003. Our audit report on the full financial report was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respect, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039: Concise Financial Reports.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion the concise financial report of Mackay Sugar Co-operative Association Limited complies with Accounting Standard AASB 1039: Concise Financial Reports.

BENNETT PARTNERS

Darryl Camilleri
Partner
**Glossary**

**Bagasse**
The residue after extraction of juices from cane in one or more mills in a sugar mill.

**Cane**
The raw material delivered to a sugar mill by a farmer for processing into raw sugar and molasses.

**Cane Production Area (Assignment)**
A cane production area entitles a grower to enter a supply agreement with a particular millowner for the supply of cane grown on a particular number of hectares situated within the boundaries of land of a particular description.

**CCS**
Commercial Cane Sugar or CCS is a measure of the percentage of sugar cane recoverable as pure sugar. Each delivery of a farmer’s cane is sampled and analysed to determine its CCS content.

**IPS/International Pol Scale**
IPS is a measure of the commercial value of raw sugar.

**Lost Time Injury Frequency Rate (LTIFR)**
The number of lost time injuries sustained for each one million manhours worked.

**Molasses**
Molasses is a by-product of the sugar milling and refining processes. It is a brown viscous syrup and is used for stockfeed and fermentation purposes.

**Molasses Percent Cane**
Molasses percent cane is the tonnage of molasses produced from each 100 tonnes of cane.

**Mud/Mill Mud**
Mud/mill mud is the residue discharged from the mud filters in a sugar mill after the clarification of cane juice.

**Polarisation/Pol**
The sucrose content of sugar, e.g. "98 pol" sugar would contain about 98 percent sucrose.

**Raw Sugar**
Raw sugar is the straw coloured impure crystalline sugar produced by a sugar mill. It usually contains 98-99 percent sucrose and is not considered fit for human consumption.

**Refined Sugar/White Sugar**
Refined or white sugar is produced by the further processing of raw sugar to food-grade standards and contains almost 100 percent sucrose. Refined sugar is the property of the refiner and is marketed direct to customers.
Mackay Sugar Co-operative Association Limited
ABN 12 057 463 671

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