The Association

The Mackay Sugar Co-operative Association Limited was formed in 1988 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 R (Andrew) Amer
A (Andrew) Barfield (to 26.11.2004)
A S (Andrew) Cappello
I L (Ian) Fraser (to 23.03.2005)
R S (Richard) Galea
S (Sydney) Gordon
V (Vince) Germanotta
R C (Rex) Stroppiana
M A (Albert) Volker (to 26.11.2004)

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Notice of Meeting

Notice is hereby given that the
18th Annual General Meeting
of the
Mackay Sugar Co-operative Association Limited
will be held in the
Mackay Entertainment Centre,
Gordon Street, Mackay
on
Tuesday 22nd November 2005,
commencing at
9.00 a.m.
Summary

- **Tonnes Cane Processed – 5.784M**
  (5.128M in 2003/04).
  A slightly improved crop, but less than initially predicted, due to lower than average rainfall in the growing period immediately before harvest. The dry conditions continued throughout the entire season, with the final tonnage 12.78 per cent greater than 2003/04. Four mills were utilised to crush the crop.

- **Sugar Content – 14.41 CCS**
  (13.57 in 2003/04).
  Heavy frosts impacted the crop early in the season and prioritised harvesting assistance was provided to remove this cane to minimise the adverse effects on CCS and cane purity. The overall sugar content for the year was higher than the previous season and resulted in an average CCS for the group of 14.41, an improvement of 6.27 per cent on 2003/04.

- **Tonnes sugar produced – 858 845**
  (711 540 produced in 2003/04).
  The increased sugar production resulted from the increases of both cane and sugar yields per hectare – a 20.7 per cent increase compared with last year. This figure is approximately 80 per cent of Mackay Sugar’s manufacturing capacity, so although it is an improvement on last year, it is still disappointingly below potential.

Financial Performance

- **Operating Revenue – $255.2M**
  The final price per tonne IPS sugar was $255.84, a slight improvement compared with last year’s price of $231.88. As a result, operating revenue increased 29 per cent to $255.2 million.

- **Operating Profit – $6.55M**
  This is a great improvement on last year (loss of $8.226 million) and is a most welcome result. This represents an impressive turnaround of $14.8 million. The Association did not receive the expected second $4 million sustainability grant from the Federal Government, due to delays in the government’s approval of the new sugar industry plan. The sale of land and buildings, which earned $2.2 million, is included in the operating profit.

The Year Ahead

- **Forecast profit of $16M**
  An improved crop for crushing, up an estimated 500 000 tonnes on 2004. This, combined with an even more significant improvement in the world sugar market outlook, will see a welcome return to consecutive years of profit for the business - the first since the crop and price-driven results from 1996 through to 1998.
It is very satisfying to be able to begin this report with the outlook in the short term far better than it has been for several years. Given a reasonable season, there is renewed belief that the ‘new’ varieties can perform to provide the production base we all need. The price outlook is also promising. There is still a physical shortage of sugar on the market which, coupled with a small crop again in Thailand, will support prices in the current range. The increasing demand for ethanol across the world will help absorb the continued expansion of the sugar industry in Brazil.

The strengthening of the Brazilian currency against the US dollar is also working in our favour. These gains are obviously offset by rising import costs. The returns for the 2005 season and probably the 2006 season should be much more reasonable than they have been. The influence of the giant Brazilian sugar industry, however, will still have a major impact on our price by continuing to be the single greatest factor in setting a floor in the market price close to their cost of production.

Financial Position
The increase in our crop by 12.8 per cent from 2003/04 together with an improvement in the sugar price of $23.96 per tonne sugar helped to produce a turnaround of $14.776 million in our profitability from a loss of $8.226 million to a profit of $6.550 million.

During the year, the Board maintained its focus on tightly controlling costs and we expect to see some of the results from the Target 10 program produce more savings in the 2005/06 year. The Target 10 program for the introduction of driver-only trains is in development and we expect to be carrying out some trials in the 2006 season. The move to driver-only trains will only happen when we are sure that the system is safe. Major projects affected during the 2004/05 period were:

1. Upgrading the high grade station (pans and fugals) at Racecourse to reduce molasses loss.
2. Installing equipment and monitoring systems to achieve efficiencies and labour savings at the Pleystowe boiler station.
3. Improvements to conveyors, cane tippler, cane handling areas and sugar loading equipment to reduce labour requirements at Marian.
4. Combining operational roles in the Farleigh process area to achieve further demanning.
5. Modifying the cooling systems on four large locomotives to increase load limits on the Farleigh North Coast line to achieve savings and a reduction in labour.

In accordance with the accounting standards the carrying value of the Association’s milling assets have been revalued and reduced by $74M. The reduction reflects lower earnings with smaller crops and lower sugar prices.

Safety
The outstanding improvements that were made in safety in 2003/04 have been consolidated. Mackay Sugar needed to change its attitude to safety and the fact that the initial gains have been consolidated indicates that our safety ‘culture’ is becoming more ingrained in our people. Once again, the Board recognises the leadership shown in this area by the One Team Alliance Manager for Transfield Services, Bob Buckley.

Transfield Services Alliance
While the delivered improvement in our safety record has been better than expected, the systems to support the changes to our work practices and planning have not met our expectations and that has made it difficult to progress as fast as we would have hoped. Transfield Services introduced their Asset Management Group to assist with the process and some progress has been made. However, it is fair to report we are probably a year behind where we would like to be with respect to developing longer term maintenance and equipment replacement plans.
A challenge for the business
Both maintenance and operational performance have been affected by the severe shortage of skilled and/or experienced people. The mining boom continues to attract some of our best people with financial packages we are unable to match. The mining boom has also attracted large numbers of farmers and harvester operators. This drain on our human resources, experience and knowledge has perhaps become the biggest challenge that our business faces. This challenge can only be met when everyone’s confidence in the future is restored; when we have seasons that assist the production of crops that reflect the farmers’ effort, so that prices and throughput can generate sufficient cash for improvement in the mills and on the farms.

Interestingly, one trend that has developed over the past couple of seasons that could assist with our response to this skills shortage is that increasing numbers of women are taking factory-based jobs in our industry. This has brought the proportion of females employed at Mackay Sugar to 19 per cent. In line with this our Equal Employment Opportunities (EEO) activities are targeting continued training for EEO contact officers and new employees. We are also encouraging women to apply for specialist positions in the factories. Quite clearly, the labour shortage that we have experienced in the recent past has uncovered a very welcome resource of female employees who are working in our industry in a diverse range of roles that they perhaps would not have considered previously.

Sugar Industry Reforms
In 2003, the Federal Member for Dawson, Mrs Deanne Kelly, set up a Value Added Sugar Taskforce to encourage a move away from almost total reliance on revenue from raw sugar production to improve the financial position of the industry. In early 2004, Mrs Kelly was a major force behind the introduction of the Federal Government’s reform package. At the time of writing (September 2005), the second sustainability payment has only just been announced along with the second round of applications (closing 18 November 2005) for Regional and Community Projects funding.

Unfortunately, I believe the system has let down both Mrs Kelly and the industry. The process to deliver the reform has been extremely slow and, at times, overly bureaucratic. The good intent of the Federal Government has, in some cases, been lost because the intent of the reform could not be delivered at a rate that matched the need to make commercial decisions.

We indicated at our 2004 AGM that we intended to pursue cogeneration as a revenue base to help begin a move away from our heavy dependence on revenue from raw sugar. We applied for financial
Chairman’s Report (continued)

assistance from the Regional and Community Projects funding package before the second round of the funding had been announced because the opportunity to lock in reasonable Renewable Energy Certificate (REC) prices with Ergon was slipping away. In December 2004, these REC’s had a market value of up to $42. Their value has now slipped by $10 to $15 below this level. Even with assistance from Government, it is difficult to make our cogeneration project work at those prices. As was the case when we investigated the purchase of the ED & F Man stake in Sugar Australia, it demonstrates the limited access of a Co-operative to capital. To be able to take advantage of opportunities like these while we are a Co-operative, we need to be in a position where we are generating substantial cash and have a lower debt to service.

Shareholder Issues

During the year the Board made two decisions that had a major impact on shareholders.

We introduced a change to the cane payment formula that we believe more closely aligns the financial drivers of the milling and farming sectors. The Board favoured at least a two-year cane supply agreement with the new payment arrangements so that all parties have a reasonable length of time to evaluate whether the objective of better aligned milling and growing sectors is being met. This change has been coupled with the use of NIR as a more automated way of measuring the sugar content of cane which growers were supplying.

The Board also introduced a change to the grouping policy. Its prime objective was to continue to provide growers with the opportunity to harvest their own cane if they chose to do so but, at the same time, organise the harvesters in such a way as to reduce the numbers of groups we had to service each day. This reorganisation was directed at improving our service to the harvest sector. It is fair to say that this change was not welcomed by all in the harvesting sector. As promised, the Board will review progress against the initial objectives of the policy at the completion of the 2005 crushing season.

The Board has continued to work well with Caneharvesters Mackay and CANEGROWERS Mackay through the Mackay Sugar Industry Partnership. We have agreed to disagree on some issues but continue to work for what we all believe is the best for the local industry.

During the past year, three Directors have left our Board and two have joined it. Albert Volker, who was originally elected in 1988, retired. Albert was reliable and always brought to the Board the grassroots view of shareholders. Andrew Barfield failed to gain re-election but the Board does miss his analytical and strategic thinking. Ian Fraser, one of our external Directors resigned in March 2005. Ian’s invaluable contribution to the Board was ensuring that we always took stock of the bigger picture, rather than concentrating too narrowly on the detail. We miss the different commercial perspective he brought to the Board.

Balancing the departures from the Board have been the two new Directors elected to the Board at the last AGM. I welcome Rex Stroppiana and Vince Germanotta onto our Board and look forward to their continued input to the business.

Finally, I want to pay tribute to the dedication and commitment of our chief executive John Pollock and all ‘our’ people both in the growing sector and in our milling operations. In each sector we are now very dependent on people who have already earned the right to be enjoying their retirement. The industry would be facing even bigger challenges if we had not been able to continue using their resources.

The recent improvement in the sugar prices and seasonal conditions has produced renewed optimism in us all and I sincerely hope that this improved outlook will be consolidated in the coming season.

CE (Eddie) Westcott, Chairman
Workplace Health & Safety

The One Team charter, encompassing our vision, joint key objectives and shared principles, marks safety as being of utmost importance. Our aim is “Zero Harm” to our people – including all employees, contractors and visitors. In 2004/05, we worked hard to achieve this goal. Mackay Sugar underwent an integrated management systems audit in February conducted by personnel from within Transfield Services Limited. The audit was conducted according to the Australian Standards 4801, 9001 and 14001 – the quality, safety and environmental management systems standards. This was the first such audit conducted at Mackay Sugar with the score of 75 per cent achieved considered a very good result. A certification audit, conducted by a third party auditor, was carried out in the 2005/06 financial year and earned Mackay Sugar a commendation for its commitment to and achievements in safety and implementation of supporting systems. Both results are a tribute to the hard work of our people.

We are very pleased with the improvement in our safety record. At the start of the Alliance (March 2003) our Lost Time Injury Frequency Rate (LTIFR) was 15.02. By the end of March 2005, it had reduced to 2.14. In June 2005, it was 2.97. This result puts Mackay Sugar among the best in the Australian sugar industry, as shown in the chart below. Since August 2004, the rate has flattened to a fairly consistent level. The group’s All Injury Frequency Rate (AIFR) has also significantly reduced over the two-year period of the Alliance, from 389.78 in March 2003 to 298.85 in June 2005. This has been achieved by the strong focus in engaging people’s attention to safety and engendering a commitment. Part of the culture change has involved encouraging all employees to take responsibility for their own safety, to report hazards and near misses and to accept that all accidents can be prevented. The Job Start and Job Analysis risk assessment processes are key tools used in the day-to-day management of our workplace hazards. Job Observations, where we take the time to briefly engage people in on-the-job safety discussions, further support these processes.

Sugar Industry vs Mackay Sugar Alliance
Lost Time Injury Frequency Rate (LTIFR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry LTIFR</th>
<th>Alliance LTIFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>18.75</td>
<td>15.41</td>
</tr>
<tr>
<td>2003</td>
<td>20.03</td>
<td>7.83</td>
</tr>
<tr>
<td>2004</td>
<td>15.28</td>
<td>2.84</td>
</tr>
</tbody>
</table>

Industry LTIFR  Alliance LTIFR
Crop
Initially a crop of between 6.5 and 7.0 million tonnes was predicted given the improved weather conditions following the completion of the 2003 crushing season. Unfortunately less than average rainfall in the period from March through to June significantly depressed growing conditions resulting in a preseason estimate of 6.25 million tonnes. Dry conditions throughout the harvest continued to impact on the crop with the final cut to estimate of 92.5 per cent and a final tonnage of 5,783,601 tonnes which, although again disappointing, was a 12.78 per cent increase on the 2003 crop.

The crop yield of 74.89 tonnes of cane per hectare was up on the 2003 yield of 66.96 tonnes per hectare – an increase of 11.84 per cent. In the early part of the season the crop was impacted by heavy frosts in some areas and prioritised harvesting assistance was provided to remove this cane to minimise the effect of the frost on CCS and cane purity. Compensating to some extent for the again lower than average crop size, the overall sugar content for the year was up on the previous season by 6.27 per cent and resulted in an average CCS for the group of 14.41.

Sugar Produced
The increase of both cane and sugar yields per hectare accounted for a final sugar make of 858,845 tonnes of IPS sugar. This was a 20.7 per cent increase on the previous year of 711,540 tonnes of IPS sugar. The CCS level of 14.41 was 0.84 of a unit above the 2003 season and 0.16 units lower than that achieved in 2002. The sugar production of 858,845 tonnes was approximately 80 per cent of Mackay Sugar’s manufacturing capacity.

Crushing Rate & Lost Time
A four-mill operating strategy was selected for the 2004 season in view of preseason estimate of 6.25 million tonnes. This required the re-commissioning of the Pleystowe plant, which had been mothballed for the previous two seasons. Pleystowe commenced operations one week in advance of the other factories to ensure adequate resources were available to assist in the re-commissioning process.

Factory stops decreased by 16.97 per cent on the previous season and this contributed to an improved group average lost time of 7.5 per cent of the available time. This was, however, only marginally better than that of the previous season of 7.88 per cent and fell short of Mackay Sugar’s best performance by 3.95 per cent.

The Farleigh factory had a significant reduction in factory stops from 7.78 per cent in 2003 down to 5.66 per cent in 2004. This reduction was targeted with capital improvements around the feeding station where the installation of an automatic uncoupling device, antiroll back stops and modification to the shredder feed chute providing a more uniform product flow to the milling train. The elimination of gaps at the feeding station had positive flow-on effects throughout the factory.

Factory stops at Marian was 6.6 per cent of available time, which was equal to that achieved in the 2003 season. The single highest contributor to the lost time in the factory was the failure of the bagasse slat conveyor which necessitated the shutdown of the factory for more than 12 hours to replace the majority of the conveyor timber slat components. Further protection devices have since been installed to prevent a similar failure of this equipment.

The re-commissioning of the Pleystowe plant in 2004 provided significant challenges for both staff and equipment. Pleystowe last operated as a crushing plant in 2001 and recorded factory lost time as 2.23 per cent of available time. The lost time in 2004 accounted for 8.43 per cent of the available time. Several singular events impacted on the lost time with the most significant of these being the failure of a superheater and convection bank tube in No.2 boiler that accounted for 42 hours lost processing time. The general increase in lost time was associated with the large percentage of new operators and staff and the
recommissioning of control equipment throughout the factory, in particular the milling train.

Racecourse had a slight rise in lost time from 9.2 per cent in 2003 to 9.3 per cent in 2004. Blackouts on five separate occasions accounted for more than 33 hours of the lost time. These failures were associated with the 7MW generator. High speed event tracking devices have now been installed to improve the fault finding capability with this equipment to assist in determining the source of those failures.

A major failure of the juice clarifier scraper drive shaft also contributed 34 hours of lost time to the total at Racecourse.

The overall crushing rate of 2205 tonnes per hour for 2004 was 30.86 per cent higher than that achieved in 2003, largely attributed to the change from the three-mill to the four-mill operating strategy. The high levels of CCS did, however, impact on the ability of all factories to maintain high crushing rates towards the end of the season.

Factory Efficiency
The overall sugar recovery (measure of sugar recoverable from the cane supply) in 2004 was 89.62 per cent. This was marginally higher than in the 2003 season, when the recovery was 89.26 per cent. A significant reduction in losses from bagasse of more than 0.5 per cent was again overshadowed by the increase in the losses in final molasses. Similarly to the 2003 season the increased losses in final molasses were associated with lower cane purity.

Sugar Quality
Sugar quality premiums earned were a highlight of the season, with an average bonus of $3.96 per tonne of sugar being achieved. The maximum attainable is $5 per tonne.

Farleigh performed the best in the state with 91 per cent of samples complying with all quality criteria and earning a bonus of $4.55 per tonne. Marian, Pleystowe and Racecourse compliance with standard were respectively ranked fifth, sixth and 13th in the state. Mackay Sugar’s average compliance was 80.6 per cent.
Molasses Production

The seasonal molasses production was 236,289 tonnes including 9,768 tonnes from the refinery. This was an extraordinarily high molasses make representing 3.92 per cent cane. Exports totalled 68,343 tonnes in four shipments, most of which were in excess of our original export plan. Fortunately export prices were good. Molasses production was high throughout the state and there was considerable competition for export ships. The situation was well managed by Australian Molasses Trading but harbour stocks were often tight.

End of season stock was 13,121 tonnes, which was all sold by June 2005. The construction of a 40,000 tonne in-ground molasses storage bladder has been approved by the Mackay Sugar Board and should be ready to receive molasses for the last few weeks of the 2005 season. This will allow more flexibility in matching timing of production and sales demand. It will also ensure adequate supplies of molasses are available during the non-crush to fulfil the full potential of the stock feed market.

An agreement has been reached with Champion Liquid Feeds to construct a liquid stock feed plant at Marian Mill and to market Mackay Sugar molasses. This facility is expected to be open by the 2006 season and will include a centralised automatic weighbridge sales centre for all molasses and molasses products.
Good financial results were again achieved by the 25 per cent owned Sugar Australia / New Zealand Sugar Company businesses in the 2004/05 operating year.

The directors and management of both businesses are very focused on safety and this has resulted in a 47 per cent reduction in the injury frequency rate at New Zealand Sugar and a 41 per cent reduction at Sugar Australia. Of further note, New Zealand have gone four and a half years without a lost time injury and Australia did not have a lost time injury for the year.

This improvement in personal safety is positive, however a major incident at the Sydney-based Glebe Island facility identified a need to increase the focus on explosion risk across both businesses. This has resulted in a significant number of operational procedure changes and the commencement of major risk reduction investment program, which will continue for several years.

Sugar Australia increased its profitability, cash flow and return on funds employed over the previous year (financial year April 2004 to March 2005). This was due to increased sales into the food and beverage channel, the branded retail market, and bulk exports through the BIBO ship the MV Pioneer. Volumes have increased, but margins have decreased due to the competitiveness of the Australian market. The business has an aggressive operational improvement program to reduce costs. However, this will not keep pace with the decrease in margins if the current trends continue. In response to this, the business is working with customers to increase prices gradually over the next few years. These initiatives will result in a slightly reduced profit for 2005/06, with a return to the 2004/05 levels the following year.

New Zealand Sugar’s profitability decreased slightly compared with the previous financial year. Volumes were consistent with the previous 12 months, but downward pressure on margins, particularly in the retail channel, was the main reason for the change. This pressure is expected to continue over the next few years, so it is anticipated that the 2005/06 result will be less than 2004/05. New Zealand Sugar continues to provide shareholders with excellent returns on funds employed.

Both businesses are market leaders in their respective countries. They both provide excellent customer service and high levels of on-time delivery performance. In the Australian retail market, a significant family of new products was released, under the banner of “Smart”, which is a combination of sugar and artificial sweetener. Initial sales of these new products have been very encouraging.

It is planned to increase new product development and a steady stream of new offerings will continue to be released to market. The strong Australian and New Zealand currencies and surplus supplies of sugar blends in Japan have had a negative short-term effect on both businesses’ export blend sales. This is expected to continue for most of 2005/06 before improving. The strong currencies have slowed containerised export sugar sales as well.

The directors and management of both businesses continue to explore growth opportunities, markets and new products, in addition to implementing cost reduction programs to grow the profitability and improve returns to shareholders.
## Six-year Financial Performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Tonnes cane milled</th>
<th>Sugar content - CCS (i)</th>
<th>Tonnes sugar produced - IPS (ii)</th>
<th>Profit &amp; Loss ($’000)</th>
<th>Retained profits</th>
<th>Balance Sheet ($’000)</th>
<th>Capital Expenditure ($’000)</th>
<th>Ratios</th>
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<tr>
<td>2004/05</td>
<td>5 783 601</td>
<td>14.41</td>
<td>858 845</td>
<td>255 161</td>
<td>190 574</td>
<td>41 782</td>
<td>5 986</td>
<td>2.36</td>
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<td>2003/04</td>
<td>5 128 009</td>
<td>13.57</td>
<td>711 540</td>
<td>197 810</td>
<td>184 024</td>
<td>41 361</td>
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<td>(0.51)</td>
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<td>2002/03</td>
<td>6 252 708</td>
<td>14.57</td>
<td>933 347</td>
<td>290 546</td>
<td>192 250</td>
<td>52 020</td>
<td>2 688</td>
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<td>2001/02</td>
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<td>2000/01</td>
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<td>491 606</td>
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<td>180 891</td>
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<td>5 631</td>
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<td>1999/00</td>
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<td>195 176</td>
<td>412 292</td>
<td>18 686</td>
<td>(0.67)</td>
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</table>

(i) CCS/Commercial Cane Sugar is the percentage of cane sugar recoverable as pure sugar.
(ii) IPS: International Pol Scale, a measure of the commercial value of raw sugar.
(iii) Operating profit/(loss) before additional price paid for cane and Income Tax.

Fugal Operator Tom Barfield scoops a handful of another batch of premium sugar being made at Mackay Sugar’s Pleystowe Mill while Production Chemist Bruce Stevenson looks on. Mackay Sugar’s factories were prominent among Queensland’s leading premium quality sugar producers during 2004 season and have started the 2005 season in similar vein. Premium quality sugar attracts a bonus of $5 per tonne above the general price paid for sugar.
Director’s Report

The Directors present their report and the financial statements of the Mackay Sugar Co-operative Association Limited for the year ended 30 June 2005.

In terms of the Cooperatives 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 2004 to the date of this report follow. A record of Board Meeting attendance during the year under review is set out below.

CE (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. Alternate Director of Sugar Australia Pty Ltd, New Zealand Sugar Company Ltd and director of Queensland Sugar Ltd. Also Mackay Sugar’s representative on the Australian Sugar Milling Council and, with MSCA staff, the Mackay Sugar Manufacturers’ Association.

BB (Barry) Sheedy FCPA (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. Chairman Great Barrier Reef Marine Park Authority Audit Committee.

AR (Andrew) Amer BA, MSc, MBA, FAICD
Independent Director since October 2003. Extensive business experience across Australia and Asia Pacific in manufacturing, banking insurance and investment, retail, and management consulting, including Managing Director of Amoco Australia, Group Manager Strategy & Marketing of Suncorp, GM Service Development of Myer Grace Bros and Management Consultant in Strategy Marketing and Organisational Restructuring for Price Waterhouse Urwick. Currently also a Director of Ainsworth Game Technology Limited.

A (Andrew) Barfield B.Ag.Sc MBA GAICD (to 26 November 2004)

Board Meeting Attendance

<table>
<thead>
<tr>
<th>Director</th>
<th>Regular Meetings</th>
<th>Special Meetings</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Held (a)</td>
<td>Attended (b)</td>
</tr>
<tr>
<td>C E Westcott</td>
<td>11</td>
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<tr>
<td>A R Amer</td>
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<tr>
<td>A Barfield*</td>
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<td>A S Cappello</td>
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<tr>
<td>I L Fraser#</td>
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<td>R S Galea</td>
<td>11</td>
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<tr>
<td>V Germanotta~</td>
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<td>S Gordon</td>
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<tr>
<td>B B W Sheedy</td>
<td>11</td>
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<tr>
<td>R C Stroppiana~</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>M A Volker*</td>
<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

(a) Meetings held while a member, (b) Meetings attended.
*retired 26/11/04, #retired 23/03/05, ~elected 26/11/04
Director’s Report

AS (Andrew) Cappello
Elected Director since 2001. Cane producer for 20 years. Chairman of Pioneer Valley Water Board, Member of the SunWater Customer Council, Rural Water Use Efficiency Management Group, the Cooperative Federation of Queensland. Mackay Sugar representative on the Board of Mackay Area Productivity Services.

IL (Ian) Fraser FCPA FAICD
(to 23 March 2005)
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, Hudson Timber Products Ltd and a Director of PMP Ltd and Structural Systems Ltd.

RS (Richard) Galea B.Com CA, GAICD
Elected Director since February 2003. After qualifying as a Chartered Accountant returned to manage his family’s diverse farming interests in 1994.

V (Vince) Germanotta
(elected 26 November 2004)
Elected to the Board in November 2004. Has been growing cane in the Mackay district for more than 30 years. Growers’ representative from 1992 to 2003 on the Marian Mill Suppliers’ Committee and joined the Mackay Area Productivity Services board as a Mackay Sugar representative in 2004.

S (Sydney) Gordon
Dip. Fin. Markets, GAICD
Has been growing cane in the Mackay District for 32 years and was elected to the Board in November 2003. He is a member of the SunWater Customer Council.

(elected 26 November 2004)

MA (Albert) Volker
(to 26 November 2004)
Elected Director since incorporation. Cane producer for 35 years with wide experience in co-operative sugar milling matters. Mackay Sugar representative on the Board of Mackay Area Productivity Services. Member of Mackay Regional Water Resources Committee.

Mackay Sugar’s Board of Directors take a break from a recent monthly Board meeting. The Board meets regularly on a monthly basis and in addition from time to time as circumstances demand. Pictured from left to right are: Andrew Cappello, Andrew Amer, John Pollock (CEO), Eddie Westcott (Chairman), Syd Gordon, Vince Germanotta, Richard Galea, Rex Stroppiana and General Manager Finance Clive Desbois. Absent at the time this photograph was taken is Deputy Chairman Barry Sheedy.
**Primary Activities of the Association**

Primary activities of the Co-operative are:

(a) to acquire, transport and process sugar cane to produce raw sugar, raw sugar products and by-products and to manufacture, transport, store, market and distribute those products and by-products;

(b) to manufacture, transport, store, market and distribute refined sugar, syrups, raw sugar for human consumption and similar products and by-products; and

(c) to produce, market and distribute electricity and other value-added commodities through the use of products and by-products arising from the activities in (a) and/or (b) above.

There was no significant change in the nature of the Association's primary activities during the financial year.

**Review of Operations**

A detailed review of the operations of the Association during the year under review, and the results of these operations, are included in the 'Operations Report' on pages 6 to 8 of this report.

**Operating Result**

The 2004 crop showed signs of recovery from extended drought, producing 5.784 million tonnes (2003 5.128 million tonnes). Average sugar content (CCS) improved to 14.41 (2003 13.57) and produced 858 845 tonnes IPS sugar (2003 711 540 tonnes). This result was still well below the district's potential and well short of the 933 347 tonnes achieved in 2002.

The final price per tonne IPS sugar was $255.84, slightly improved on 2003/04 ($231.88). Accordingly, operating revenue rose 29 per cent to $255.2 million. The operating profit of $6.550 million is a welcome result, representing a turnaround of $14.776 million on the 2003/04 loss of $8.226 million.

In 2004-05 the Association did not receive the expected second $4 million sustainability grant, due to delays in the Federal Government granting approval of the new sugar industry plan.

A profit of $2.2 million was realised from the sale of land and buildings and this is included in the operating profit.

The Financial Statements at pages 21 to 26 of this Report and the Discussion & Analysis regarding those statements on pages 19 and 20 further explains 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**

In the opinion of Directors, no matter or circumstance has arisen in the interval between the end of the financial year and the date of this report, which has significantly affected, or may significantly affect the operation of the Association, the results of those operations, or the state of affairs of the Association in subsequent financial years.

**Future Developments**

Following a detailed investigation during the previous 12 months, approval was given to the Board at an Extraordinary General Meeting on 4 July 2005, to proceed with a Cogeneration project subject to several conditions being satisfied. It became clear subsequently that several of these conditions could not be fulfilled within the timeframe set and on 29 August 2005 the Chairman advised shareholders that the project was being deferred. The Association is continuing to explore opportunities to advance the project.

Also the Board continues to explore other ideas and projects to advance the Association. Until any such idea becomes a firm commercial proposal, however, untimely and early disclosure could result...
Proceedings on behalf of the Association

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Environmental Issues

Mackay Sugar’s amended environmental license came into effect on 11 November 2004. It includes not only sugar milling or refining activities and fuel burning, but also the Environmentally Relevant Activities (ERA) of motor vehicle workshops and chemical storage. The addition of these latter two activities to the license provisions will place additional obligations on Mackay Sugar and action plans are in place to address these new conditions. Associated with these new ERA’s are new license conditions relating to bunding, waste oil collection, waste handling, oil separators and pits, and vehicle cleaning.

Mackay Sugar’s commitment to minimising the risk of environmental harm caused by contaminant releases to air, water or land has focused on two major areas in 2004-05:

1. minimising stack and water emissions; and
2. varying the environmental license applications for Mackay Sugar’s four sites to achieve realistic goals.

Efforts to improve factory plant associated with emissions have focused on upgrading the dust collectors at Pleystowe and Farleigh. Farleigh plant has undergone significant improvements which have produced good emission results. In fact, during the 2005 crushing season, tests showed that Farleigh was emitting below its license limit.

Pleystowe’s stack emissions will require further improvement. Mackay Sugar is applying for a new Environmental Management Plan (EMP) to replace the former plan which expired in May 2005. The draft plan aims to reduce that site’s emissions to below the license limit over the next three years.

The amended license under negotiation will set lower limits for Racecourse and Marian, as both these sites now operate well under their emission limits and Marian mill’s three chimneys will be considered as a single source.

A focus on minimising water usage has seen Farleigh and Pleystowe mills obtain a meaningful reduction in their annual water usage, which is now well within license. Efforts to reduce water usage at Marian mill have also produced excellent results. Marian’s water usage has reduced from 770 megalitres (33.5ML per week) two years ago to 338 ML (18.8ML per week) for the 2004 season. This represents a 56 per cent decrease in water consumption. For the 2005 season, consumption was originally budgeted at 320ML or 17.9ML per week and due to further improvement measures the current forecast usage is 200 ML. Unfortunately improvements at Racecourse mill have not been as successful and we are continuing to address this situation.

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. At the time of reporting there is only one “independent” Director with the Board still to consider the appointment of another external Director.
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 ensuring 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 11 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.

(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 nine 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

NIR analyst Barbara Simpson shown here collecting a fibre sample from the milling train at Pleystowe Mill. Barbara is one of the team of analysts who collect and process samples to ensure the calibration integrity of the NIR measuring units installed at each of Mackay Sugar’s factories. Being able to measure fibre with the NIR units means that growers are now paid for cane on the basis of their actual fibre rather than the traditional class average system.
as at 30 June 2005 and a brief description of their respective roles follows. Senior management also serve where appropriate.

- The Audit Committee is comprised of Messrs BB Sheedy, S Gordon, RC Stroppiana and V Germanotta and helps the Board fulfill its financial responsibilities relating to the Association’s general accounting practices. The committee serves as an independent and objective reviewer of 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. Director members are Messrs CE Westcott, BB Sheedy, AS Cappello and RS Galea. The 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. Its 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 comprises Messrs AR Amer, S Gordon, V Germanotta and RC Stroppiana and assists the Board of Directors to fulfill its governance and oversight responsibilities for occupational health and safety and for environmental management.

- The Remuneration Committee membership includes Messrs CE Westcott, BB Sheedy and AS Capello and reviews remuneration policies and procedures and establishes staff salary packages.

- The Water Conservation Committee includes Messrs AS Cappello, RC Stroppiana and RS Galea as Director members and works to increase supplies of affordable irrigation water for the Mackay Sugar area.

- The Siding Committee comprises Messrs S Gordon and V Germanotta and addresses issues such as the maintenance and construction of sidings.

- The Housing Committee has BB Sheedy and S Gordon as members and was formed to oversee the sale of surplus mill houses and land.

- The Cogeneration Committee includes Directors CE Westcott and BB Sheedy working with various members of the Association’s senior staff. The role of the committee is to assist the Board of Directors fulfill its governance and oversight responsibilities for the decision on the Racecourse Cogeneration project and to identify and quantify the risks associated with the project.

- The Harvest Advisory Committee includes Directors CE Westcott, BB Sheedy and RC Stroppiana and maintains a watching brief on harvest-related issues and assesses their impact on the Association’s activities.

(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
Director’s Report

in all of its operations. Directors and employees are expected to act with the utmost integrity and objectivity to maintain the Association’s reputation.

Equal Employment Opportunities
Mackay Sugar is committed to the provision of equal employment opportunities, and in 2004-05 made significant progress in the field. The number of female employees has increased markedly and women now represent 19 per cent of the workforce. Mackay Sugar’s EEO committee is continuing to work in areas of importance, including continued training for EEO contact officers and continued training on EEO in recruitment and selection to ensure Mackay Sugar’s recruitment policy consistently applies EEO principles.

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 willful 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.

Auditor’s Independence Declaration
A copy of the auditor’s independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

CE Westcott
Chairman

BB Sheedy
Deputy Chairman

Signed at Mackay on behalf of the Board this third day of October 2005.
Auditor’s Independence Declaration

Under Section 307C of the Corporations Act 2001
To the directors of Mackay Sugar Co-operative Association Limited:

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005, there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

BENNET PARTNERS
Chartered Accountants

DARRYL CAMILLERI
Partner

Dated: 3rd October 2005
At: First Floor,
    122 Wood Street
    Mackay. Qld 4740
Concise Financial Report

Discussion & Analysis of Financial Statements
This discussion and analysis is provided to assist members to understand the following financial report.

Statement of Financial Performance
The net profit after income tax for the 2004/05 financial year is $6.550 million, which was an improvement of $14.776 million on the previous year's result. The asset revaluation reserve was reduced by $74.0 million.

An increase in the crop and sugar price in the period significantly boosted income from the milling business compared with the previous year. The 2004 season crop of 5.784 million tonnes was up 12.8 per cent on the 2003 season crop. Queensland Sugar Limited paid $255.84 per tonne IPS sugar for the 2004 season, an increase of $23.96 per tonne compared with the 2003 season price of $231.88 per tonne.

Molasses sales earned greater income in 2004/05, increasing by $3.2 million compared with the previous year as a result of higher world export prices, the improved crop, and historically high molasses production. Other revenue was down on last year mainly because the first tranche of the Federal Government's sustainability grant of $4.09 million was included in the previous year's results. Included in other revenue was profit on the sale of land and houses of $2.2 million.

Reductions in sales and margins put pressure on the refining business in both Australia and New Zealand, resulting in slightly decreased earnings compared with the previous year.

Overhead costs increased slightly compared with the previous year, while borrowing expenses reduced due to lower interest rates and lower levels of debt.

Depreciation for the 2004/05 financial year of $9.756 million was up 6.6 per cent compared with the previous year. This occurred due to the increase in tonnes of cane on which the depreciation rates are based. This method of calculating depreciation is used rather than a time basis to reflect a more realistic depreciation level, particularly in years of smaller crops or mill closures.

The Directors have a responsibility to ensure that the value of the assets in the accounts is not overstated and, based on the continued downturn in the crop and sugar price, the value of the milling assets was reduced by $74.0 million to $160.9 million. This reduction effectively reverses previous valuation increases and leaves $8.6 million in the asset revaluation reserve. It should be emphasised that the devaluation is not a loss and is only shown in the Statement of Financial Performance due to reporting requirements.

Statement of Financial Position
Net debt decreased by $9.2 million to $52.6 million. Net debt was made up of Rabo Bank Loans of $40.0 million and IBDs of $26.8 million, offset by Grower Loans of $0.5 million and Cash of $13.7 million. Total Members’ Equity decreased by $67.5 million to $199.2 million as at the 30th June 2005. This resulted from offsetting the year's profit of $6.5 million against the asset devaluation of $74.0 million. 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 $15.3 million to $13.8 million, due mainly to the improved crop and sugar price. Capital expenditure was again tightly controlled at $3.0 million compared with the previous year at $2.1 million.
The Sugar Australia joint venture's cash flow was $1.6 million less than its profit compared with the previous year’s figure of $4.2 million in excess of its profit. This shows in the cash flow as an investing activity, as it increases the value of our refining investment.

Movements from financing activities were made up of repayments by shareholders of plant loans of $2.8 million, repayment of term debt of $14.0 million, and an increase in Interest Bearing Deposits of $0.8 million. Cash on hand decreased by $1.2 million to $13.7 million.
### Statement of Financial Performance
for the year ended 30 June 2005

<table>
<thead>
<tr>
<th>Note</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>Sales</td>
<td>2</td>
<td>240 143</td>
</tr>
<tr>
<td>Cane purchases and allowances</td>
<td>(146 958)</td>
<td>(109 576)</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>93 185</td>
<td>70 799</td>
</tr>
<tr>
<td>Other revenues</td>
<td>2</td>
<td>7 342</td>
</tr>
<tr>
<td>Maintenance</td>
<td>(31 030)</td>
<td>(29 690)</td>
</tr>
<tr>
<td>Operating</td>
<td>(27 052)</td>
<td>(23 267)</td>
</tr>
<tr>
<td>Overheads</td>
<td>(27 775)</td>
<td>(27 711)</td>
</tr>
<tr>
<td>Borrowing expenses</td>
<td>(6 040)</td>
<td>(6 638)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>(9 756)</td>
<td>(9 154)</td>
</tr>
<tr>
<td>Share of net profits of associates and joint ventures accounted for using the equity method</td>
<td>7 676</td>
<td>7 810</td>
</tr>
<tr>
<td><strong>Profit (Loss) from ordinary activities and before income tax</strong></td>
<td>6 550</td>
<td>(8 226)</td>
</tr>
<tr>
<td>Income tax expense relating to ordinary activities</td>
<td>-</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>6 550</td>
<td>(8 226)</td>
</tr>
<tr>
<td>Net increase (decrease) in asset revaluation reserve</td>
<td>(74 000)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total changes in equity other than those resulting from transactions with owners as owners</strong></td>
<td>(67 450)</td>
<td>(8 226)</td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
Statement of Financial Position  
as at 30 June 2005

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>13 715</td>
<td>14 916</td>
</tr>
<tr>
<td>Receivables</td>
<td>16 960</td>
<td>17 245</td>
</tr>
<tr>
<td>Inventories</td>
<td>11 040</td>
<td>9 071</td>
</tr>
<tr>
<td>Other</td>
<td>67</td>
<td>129</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>41 782</td>
<td>41 361</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>340</td>
<td>354</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>160 949</td>
<td>242 085</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>16 797</td>
<td>16 797</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>65 833</td>
<td>64 309</td>
</tr>
<tr>
<td>Intangibles</td>
<td>1 866</td>
<td>2 493</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Non-Current Assets</strong></td>
<td>245 785</td>
<td>326 038</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>287 567</td>
<td>367 399</td>
</tr>
</tbody>
</table>

| **LIABILITIES**      |       |       |
| Current Liabilities  |       |       |
| Payables             | 17 392 | 16 253 |
| Interest bearing liabilities | 44 773 | 39 966 |
| Provisions           | 1 299  | 1 266 |
| **Total Current Liabilities** | 63 464  | 57 485 |
| Non-Current Liabilities |     |       |
| Payables             | 274   | 822   |
| Interest bearing liabilities | 22 000 | 40 000 |
| Provisions           | 2 657 | 2 470 |
| **Total Non-Current Liabilities** | 24 931 | 43 292 |
| **TOTAL LIABILITIES** | 88 395 | 100 777 |
| **NET ASSETS**       | 199 172 | 266 622 |

| **MEMBERS’ EQUITY**  |       |       |
| Contributed equity   | 1     | 1     |
| Asset revaluation reserve | 8 597  | 82 597 |
| Retained profits     | 190 574 | 184 024 |
| **TOTAL MEMBERS’ EQUITY** | 199 172  | 266 622 |

The accompanying notes form part of this concise financial report.
## Statement of Cash Flows
for the year ended 30 June 2005

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</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>237 656</td>
<td>181 302</td>
</tr>
<tr>
<td>Payments to members for cane supplied</td>
<td>(147 827)</td>
<td>(109 116)</td>
</tr>
<tr>
<td>Payments to suppliers and employees</td>
<td>(79 908)</td>
<td>(81 549)</td>
</tr>
<tr>
<td>Distributions received from associated entities</td>
<td>7 711</td>
<td>7 651</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 236</td>
<td>1 187</td>
</tr>
<tr>
<td>Other revenue</td>
<td>969</td>
<td>5 645</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(6 040)</td>
<td>(6 638)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities</strong></td>
<td>13 797</td>
<td>(1 518)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributions received from associated entities</td>
<td>(1 558)</td>
<td>4 193</td>
</tr>
<tr>
<td>Payments for property, plant and equipment</td>
<td>(5 986)</td>
<td>(2 295)</td>
</tr>
<tr>
<td>Proceeds on sale of property, plant and equipment</td>
<td>2 997</td>
<td>240</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>(4 547)</td>
<td>2 138</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for borrowing costs</td>
<td>(44)</td>
<td>(2 003)</td>
</tr>
<tr>
<td>Repayment of borrowings</td>
<td>(14 000)</td>
<td>(12 000)</td>
</tr>
<tr>
<td>Decrease in growers’ loans</td>
<td>2 786</td>
<td>3 156</td>
</tr>
<tr>
<td>Increase in unsecured deposits</td>
<td>807</td>
<td>(142)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>(10 451)</td>
<td>(10 989)</td>
</tr>
<tr>
<td>Net decrease in cash held</td>
<td>(1 201)</td>
<td>(10 369)</td>
</tr>
<tr>
<td>Cash at 1 July 2004</td>
<td>14 916</td>
<td>25 285</td>
</tr>
<tr>
<td><strong>Cash at 30 June 2005</strong></td>
<td>13 715</td>
<td>14 916</td>
</tr>
</tbody>
</table>

The accompanying notes form part of this concise financial report.
Notes to the Concise Financial Report
for the year ended 30 June 2005

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.

The accounting policies have been consistently applied and are consistent with those of the previous financial year.

Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The economic entity is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for financial years commencing 1 January 2005. The adoption of AIFRS will be reflected in the Association’s financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The Co-operative’s management, along with its auditors, have assessed the significance of the expected changes and are preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards, has been considered where applicable.

The directors are of the opinion that the key differences in the economic entity’s accounting policies on conversion to AIFRS and the financial effect of these differences where known are as follows. Users of the financial statements should, however, note that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS, or interpretation of the AIFRS requirements change.

Defined benefit plans

Mackay Sugar Co-operative Association Ltd sponsors one defined benefit plan. Contributions to the plan are expensed when due and payable and no assets or liabilities are recognised in relation to this plan in the financial report of the entity as the entity has no legal or constitutional obligation to fund any shortfall nor does it control any surplus assets. Under AIFRS, the entity will be required to recognise the surplus or deficit of the plan in its balance sheet, with the resulting movement recognised in its income statement. This change in policy is anticipated to have an effect on the financial statements, both on transition and on an ongoing basis, and is likely to introduce more volatility in the income statement.

On transition the financial effect of this impact will be the recognition of a liability of $100,000 being the deficit of the defined benefit plan as at 1 July 2004. This will also result in an equivalent decrease in retained
earnings at 1 July 2004. For the year ended 30 June 2005 an increase in profit amounting to $706 000 will be required after the recognition of an asset of $606 000 for the surplus of the defined benefit plan as at 30 June 2005. It should be noted that the surplus/deficit to be recognised is unlikely to be the exact amounts above as the method of determining the surplus under AIFRS is not the same as required to be disclosed under current Australian GAAP.

Impairment of assets
Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted discount rate and impairment is assessed at the individual asset or at the "cash generating unit" level. Under AASB 136, an impairment loss is allocated first against goodwill and then pro rata against other assets. This change in policy may result in the write-off of the 2005 carrying value of the goodwill disclosed in the Association’s financial statements ($792 000).

Goodwill
Goodwill is currently amortised over a 20-year period. AIFRS does not permit goodwill to be amortised, but instead requires the carrying amount to be tested for impairment at least annually. Goodwill currently recognised in the balance sheet, adjusted if necessary on the optional restatement of business combinations, must be allocated to individual cash-generating units (or groups of cash-generating units) and tested for impairment at the allocated level. This change in policy may result in increased volatility in the profit and loss, where impairment losses are likely to occur.

Deferred Expenses
Deferred expenses are currently amortised over the period during which the related benefits are expected to be realised. The deferred expenses are borrowing costs associated with the refinancing of term debt. AIFRS does not permit borrowing costs to be amortised unless they relate to a specific asset. As these borrowing costs do not relate to a specific asset, they must be expensed in the period incurred.

The financial effect of this change on transition will be the write-off of the deferred expenses asset of $2 003 000 and accumulated amortisation of $435 000. This will result in a reduction in retained earnings of $1 568 000 at 1 July 2004. For the year ended 30 June 2005, the amortisation of $537 000 will be reversed. This will result in an increase in profit amounting to $493 000 after accounting for additional borrowing expenses of $44 000 incurred during the year.

Employee benefits
Under AIFRS, the Co-operative will no longer be able to recognise provisions for annual leave on a nominal basis, regardless of when the leave is expected to be taken, but will instead be required to discount the portion of annual leave liabilities expected to be taken more than 12 months from the reporting date. This change in accounting policy is likely to reduce the aggregate provision for annual leave, but is unlikely to significantly affect the income statement.
Notes to the Concise Financial Report
for the year ended 30 June 2005

Note 2: Revenue

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>$’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>240 143</td>
<td>180 375</td>
</tr>
<tr>
<td>Share of associated companies operating profit</td>
<td>3 111</td>
<td>3 227</td>
</tr>
<tr>
<td>Share of joint ventures operating profit</td>
<td>4 565</td>
<td>4 583</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>247 819</td>
<td>188 185</td>
</tr>
<tr>
<td>Interest received</td>
<td>1 236</td>
<td>1 187</td>
</tr>
<tr>
<td>Profit on sale of property held for resale</td>
<td>2 154</td>
<td>-</td>
</tr>
<tr>
<td>Other revenue</td>
<td>3 952</td>
<td>8 438</td>
</tr>
<tr>
<td><strong>Total Other Revenues</strong></td>
<td>7 342</td>
<td>9 625</td>
</tr>
<tr>
<td><strong>Total revenue per Statement of Financial Performance</strong></td>
<td>255 161</td>
<td>197 810</td>
</tr>
</tbody>
</table>

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 2005, as set out on pages 11-26:

(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 the resolution of the Board of Directors.

C E Westcott
Chairman

BB Sheedy
Deputy Chairman

Dated this third day of October 2005
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 2005 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 2005. 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 the Accounting Standard AASB 1039: Concise Financial Reports.
**Bagasse**
The fibrous residue after extraction of juices from cane in one or more mills in a sugar factory.

**Cane**
The raw material delivered to a sugar factory 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 cane sugar recoverable as pure sugar. Each delivery of a farmer's cane is sampled and analysed to determine its CCS content.

**Cogeneration**
The process of generating electrical power simultaneously with other processes, such as thermal energy. A sugar factory, for instance, burns fuel and produces factory steam and simultaneously produces electricity for internal use and sale to the grid.

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

**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 factory after the clarification of cane juice.

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

**Raw sugar**
Raw sugar is the straw-coloured impure crystalline sugar produced by a sugar factory. It usually contains 98-99 per cent 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 per cent sucrose. Refined sugar is the property of the refiner and is marketed direct to customers.