



Mackay Sugar Limited

**Directors' Report
Year ended 31 May 2019**



Mackay Sugar Limited
ABN 12 057 463 671

Directors' Report

The Directors present their report, together with the consolidated financial statements, on the Group comprising of Mackay Sugar Limited (referred to hereafter as the 'Company' or 'parent entity') and its subsidiaries for the year ended 31 May 2019, and the auditor's report thereon.

Board of Directors

The Directors who were in office from 1 June 2018 to the date of this report are as follows:

MR (Mark) Day:	Chairman
PA (Paul) Manning:	Deputy Chairman
AR (Tony) Bartolo	
LM (Lee) Blackburn	
LG (Lawrence) Bugeja	
AS (Andrew) Cappello	
RM (Richard) Findlay	
JP (Jeffrey) Grech	
MC (Maurie) Maughan	

The profiles of the above Directors can be found on pages xx-xx. A record of Board Meeting attendance during the year under review is set out on page xx.

Changes to the Board

Jeffrey Grech – Grower Director

Jeffrey Grech retired from the Board on 30 October 2018.

Anthony Bartolo – Grower Director

Anthony Bartolo was elected to the Board as a Grower Director on 30 October 2018.

Company Secretary

Donna Margaret Rasmussen – Company Secretary

Company Secretary since 1 August 2006, Donna has worked for Mackay Sugar Limited and its predecessor co-operatives for more than 35 years in senior administrative positions.



The number of Directors meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors of the Company during the financial year were:-

MEETINGS OF DIRECTORS					
	Directors Meetings	Special Directors Meetings	Committee Meetings of Directors Number of Meetings Attended/Held		
			Audit and Finance	Remuneration and Nomination	Health, Safety and Environment
M. R. Day	8 of 9	3 of 3			
A. R. Bartolo	4 of 9	2 of 3			4 of 6
L. M. Blackburn	9 of 9	3 of 3			
L. G. Bugeja	9 of 9	2 of 3			6 of 6
A. S. Cappello	8 of 9	3 of 3		1 of 2	
R. M. Findlay	9 of 9	3 of 3	7 of 8	2 of 2	
J. P. Grech	5 of 9	1 of 3			2 of 6
P. A. Manning	9 of 9	3 of 3	8 of 8	2 of 2	6 of 6
M. C. Maughan	9 of 9	2 of 3	8 of 8		

Principal activities

Principal activities of the Group are:

- (a) to acquire, transport and process sugar cane to produce raw sugar products and by-products and to transport, store, market, price 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 Group's principal activities during the financial period.

Review of operations

Information on the operational performance of the Group for the year ending 31 May 2019 is discussed in the *Operations* section (pages xx to xx) of this report.

Operating results

Operating results for the period ending 31 May 2019 are set out in *The year in review* (pages xx; xx; xx to xx) and the *Financials* section (pages xx to xx) of this report.



Health, Safety and Environment

The Company has comprehensive Health, Safety and Environment Policies and is committed to continuous improvement in this area.

The Company is subject to a range of environmental legislation in Australia. Information on the Company's compliance with environmental legislation is contained in the *Environment* section (pages xx to xx) of this report.

Equal employment opportunities

The Company's employment policies are continually reviewed to ensure compliance with governing legislation in the area of equal employment opportunity. The Company is compliant with the requirements of the Equal Opportunity for Women in the Workplace Agency (EOWA).

Information on the Company's compliance with equal employment opportunity legislation is detailed in the *Employees* section (pages xx to xx) of this report.

Dividends paid or recommended

No dividends were paid or declared for payment during the financial year.

Remuneration report

The "*Corporations Legislation Amendment (Deregulatory and Other Measures) Act 2016*", enacted on 19 March 2016, amended the *Corporations Act 2001* to exclude "unlisted disclosing entities" from being required to prepare a remuneration report. As the Company is classified as an unlisted disclosing entity under the *Corporations Act 2001*, a remuneration report has not been included in the Directors' report. Under the accounting standards, the Company is required to disclose summarised remuneration information in relation to the Directors and certain executives in the notes to the accounts. This information has been included in the concise financial report included in this report (Refer note 4: Key management personnel compensation).

Options

No options over issued shares or interests in the Company were granted during the financial year or since the end of the financial year and there were no options outstanding at the date of this report.



Significant changes in state of affairs

Recapitalisation

On 29 July 2019, the shareholders of the Company voted in favour of an investment proposal by Nordzucker AG in the Company. This resulted in the implementation of the share subscription agreement between the Company and Nordzucker AG which was completed on 31 July 2019. Nordzucker AG acquired a 70% shareholding in the Company through a \$60 million equity investment.

Details of the major financial transactions and changes as a result of the recapitalisation are set out in note 5 of the Company's concise financial report for the year ended 31 May 2019.

Sale of Mossman Mill

As part of the conditions of the above recapitalisation, the Company sold Mossman mill to Far Northern Milling Pty Ltd on 5 July 2019. The sale transaction included all assets and specified liabilities associated with the Mossman milling business. The Company transferred the employee entitlements to the purchaser on completion and has committed to meet any redundancy payments in the event that Mossman mill is closed before 31 December 2020. Under the sale agreement, the Company will provide a range of transitional services to the purchaser, until the purchaser is able to fully establish its own accounting and business systems.

Impairment of assets

As at 31 May 2019 the Directors have determined circumstance exist that require property, plant, equipment and investment property assets to be impaired to reflect their recoverable value. Two valuation approaches were considered being 'fair value' and 'value in use'. The higher of the two approaches has been used to establish recoverable value.

The fair value approach requires a comparison to be made with an independent third party transaction. The recapitalisation transaction is such a transaction. The value in use approach requires estimated future cash flows to be discounted. The resultant discounted cash flow analysis has indicated that the fair value is the highest value of the two approaches.

Using the fair value approach the following outcomes have been determined and included in the statement of profit or loss for the year ended 31 May 2019:

Loss on impairment of property, plant and equipment – Mackay milling assets	\$163.95 million
Loss on impairment of property, plant and equipment – Mossman milling assets	\$ 0.45 million
Loss on impairment of Mossman investment property	\$ 0.66 million
Total impairment of assets	\$165.06 million

The asset impairments have resulted in the value of total assets decreasing to \$309.46 million. As total liabilities as at 31 May 2019 are \$309.46 million, net assets (total equity) is \$Nil.

Settlement of Unsecured Notes (Bonds)

Repayment of the Company's \$50 million in unsecured notes (bonds) occurred in August 2019. As part of the recapitalisation of the Company, a repayment discount of 50% was agreed with the Noteholders resulting in the full settlement of the liability for \$25 million.

There were no other significant changes in the state of affairs of the Company, other than those advised in other sections of this report, or in the accounts or in the notes thereto.

Events after the reporting period end date

Racecourse Cogeneration Operations



A failure of the switchboard on the 38Mw alternator at Racecourse mill on 6 July 2019 resulted in a significant reduction in the output of the Cogeneration operations of the Company. An insurance claim is expected to be received for a portion of the losses incurred from this event. At the time of this report, a loss of approximately \$1.5 million after accounting for likely insurance recoveries is expected to be incurred by the Company.

In the opinion of Directors, other than the information advised in the 'Significant changes in state of affairs' above, no other matter or circumstance has arisen in the interval between the end of the financial year and the date of this report, which significantly affected, or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Going concern

While the cash flow from operating and investing activities resulted in a negative cash flow of \$15.37 million, plans to improve the profitability of the Company are in progress and significant recapitalisation has been undertaken. Subsequent to the year ended 31 May 2019 financial accounts; the following equity funding and financing facilities have been obtained to fulfil the future funding requirements of the Company:

- Receival of \$60 million in equity funding through the Nordzucker recapitalisation;
- Establishment of a shareholder loan facility of up to \$60 million provided on commercial terms;
- Establishment of new bank financing facilities for a five year term.

Future developments

The Board continues to explore opportunities and projects to advance the Company's core business through improvements in milling rate, recovery and reliability. Likely developments in the operations of the Company and the expected results in future financial years have not been included in this report as until any such development becomes a firm commercial proposal, untimely and early disclosure of such information is likely to result in unreasonable prejudice to the Company.

Proceedings on behalf of the Company

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 period.

Indemnification of Officers

The Company 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 Company, other than conduct involving a wilful breach of duty in relation to the Company.



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Directors' Report

Rounding of amounts

The Company has applied the relief available to it under Australian Securities and Investments Commission (ASIC) Instrument 2016/191 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 xx.

This report of the Directors is signed in accordance with a resolution of the Board of Directors.

M.R. Day
Director - Chairman

P.A. Manning
Director – Deputy Chairman

Dated: 21 August 2019



Partners

Chris Sammut FCA
Paul Hinton CA
Therese Scotton CA
Geoff O'Connor CPA, Affiliate CA
John Lavis CA, CTA
Ryan Leach CA
Brenton Lazzarini CA

Auditor's Independence Declaration

Under section 307c of the Corporations Act 2001

To the Directors of Mackay Sugar Limited:

I declare that, to the best of my knowledge and belief, during the year-ended 31 May 2019, 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.

Paul Hinton CA
Partner

Dated: 22 August 2019

At: First Floor
122 Wood Street
MACKAY QLD 4740

Liability limited by a scheme approved under professional standards legislation.

Website: www.bennettpartners.com.au

Email: enquiries@bennettpartners.com.au

Bennett Partners Pty Ltd ACN 010 430 314, ABN 65 010 430 314, AFSL 48053
Bennett Partners Pty Ltd ATF The Bennett Partners Trust ABN 21 171 313 477
Bennett Partners ABN 59 281 397 611

Mackay: First floor, 122 Wood Street, Mackay QLD 4740
PO Box 92, Mackay QLD 4740 Phone: 07 4951 1455
Brisbane: Level 3, 400 Queen Street, Brisbane QLD 4000
GPO Box 2561, Brisbane QLD 4001 Phone: 07 3221 6200