

**Proserpine Co-operative
Sugar Milling Association
Limited**

**Annual Report
Year ended 28th February 2002**

Board Members

Frederick William (Dick) Dray	Chairman
Luigi James (Lui) Raiteri	Deputy Chairman
Russell William Biggs	Director
Ivan Vincent Ivanoff	Director
William Alexander (Bill) Lade	Director
John David Mau	Director
Geoffrey Valmadre	Director

Senior Staff

Alf Musumeci	General Manager
Chris Connors	Company Secretary
Mick Wesener	Chief Engineer
Ted Pointing	Chief Cane Inspector
Laurie Watson	Chief Chemist

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Auditors

C E Smith & Co Proserpine
86 Main Street
Proserpine Qld 4800

Bankers

Westpac Banking Corporation

Solicitors

Macrossan & Amiet

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Overview

Sugar Production

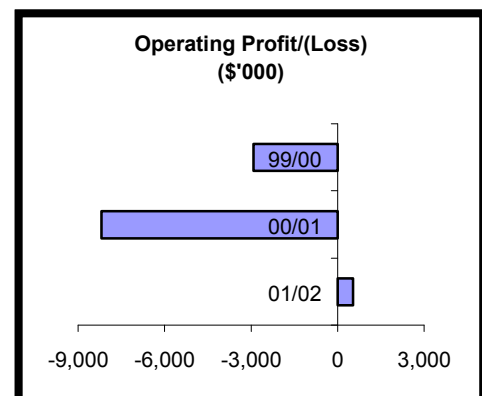
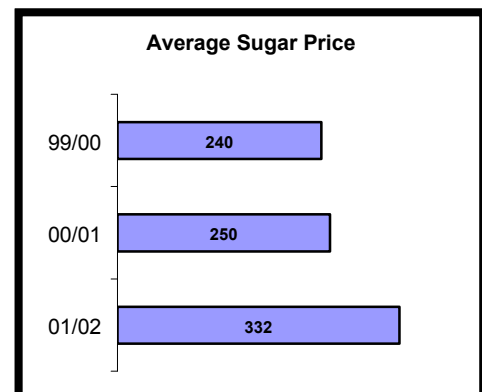
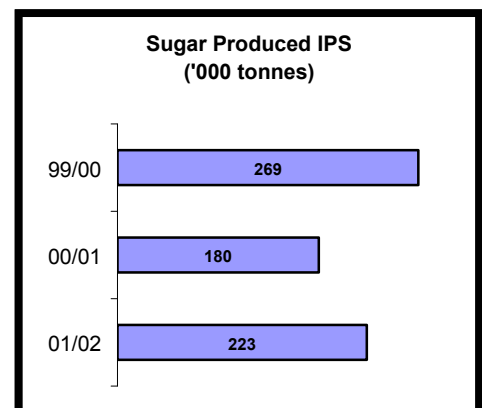
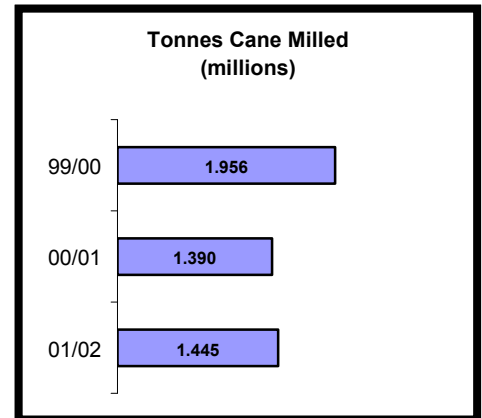
- **Cane Crop – ↑ 4% on last year**
2001 season cane milled was 1 445 089 tonnes, compared to 2000 season of 1 389 677.
- **Sugar Content – ↑ 18% on last year**
Improved conditions resulted in an increase in the sugar content from a CCS of 12.79 in 00/01 to 15.06 in 01/02
- **Sugar Production IPS – ↑ 24% on last year**
The increase in sugar production from 179 844 in 00/01 to 222 770 in 01/02 was as a result of the increase in CCS for the most part with some impact from improved factory efficiencies.

Financial Performance

- **Total Income – ↑ 45% on last year**
A combination of the increase in CCS and the substantially higher sugar pool price resulted in an increase in income of \$8.7 million from 00/01 to 01/02.
- **Operating Profit – \$538,464**
A marginal operating profit before income tax and extraordinary items was recorded in 01/02 as expected. The effect of Orange Rust on the crop was still present, higher sugar prices and CCS being the reason for the improved financial results.

Future Prospects

Industry leaders are expecting world sugar prices to remain depressed for a number of years. The Co-operative is therefore budgeting and planning based on these expectations.



CHAIRMAN'S COMMENTS

Chairman's Comment

Once again as Chairman of Proserpine Co-operative Sugar Milling Association Limited it is my privilege to present the 71st Annual Report and the first report for the 21st century. Although the financial results are nothing to get excited about it is a far better outcome than the year 2000. From an operating loss of \$8 million in the previous year the Co-operative has managed to make a marginal profit even though the factory processed only 55 500 tonnes of cane more than the previous year.

The saving features that made the result possible were the sugar price returning to a reasonable level of \$332 per tonne and seasonal average CCS level of 15.06 being in excess of the 5-year average of 13.27 and the 12.79 recorded for the 2000 season.

With 1 445 189 tonnes of cane harvested, the crop was once again a disappointment dropping from the pre-season estimate of 1,660,000 tonnes and falling way short of the productive capacity of the district. Orange Rust not only affected the growth of Q124 but also affected the ratoon stool from the previous year. Although the Co-operative provided \$1 000 000 in interest-free advances to farmers to combat orange rust it would appear that the results were mixed. I also believe that the lack of early winter rain and late August rain, which has been the case in the last two seasons, has had a detrimental effect on late cane growth.

Once again the crushing commenced after the Proserpine Show and lasted 15.6 weeks. This year the fifth mill was commissioned and except for a problem with the bagasse delivery belt during the first week and minor settling down problems it performed reasonably well delivering a final extraction of 97.2% which is a very good result justifying the installation. It also helped to provide lower moisture in final bagasse and helped in cutting the extraneous fuel costs.

Overall the milling train performed well with an average crushing rate of 637 tonnes per hour being the same as the previous year and an average fortnightly throughput of 185 000 tonnes. The crushing rate was intentionally restrained to assist the harvesting sector, which was under pressure harvesting poor crops.

The factory handled the high CCS very well with very few hold ups. For most parameters the quality of the processed sugar was quite good.

High liquor purity and the relatively small cane crop meant that the molasses make was less than usual. This, coupled with higher demand by cattle producers due to prolonged dry weather and good meat prices, called for careful management to balance the needs of the market and maintaining good relations with long term customers. The additional storage provided by the molasses bladder permitted molasses supplies to be made available to local cattle producers for longer than other outlets.

This year saw a cane quality scheme introduced. The scheme was to promote the delivery of clean cane with a bonus paid to the best 45% of the cane each day. An amount of approximately \$180 000 was paid to growers. It was clear that the system had an impact with the poorer performing groups.

The mill has continued to export electricity into the grid system and during the season Ergon Energy finished the upgrade of the interconnection to the State grid to allow the export of up to 10MW. The amount that is actually exported will of course depend on the factory's electricity usage and steam requirements.

Once again the harvesting sector came under a lot of pressure due to poor crops. Weather conditions had very little impact on their operations but rising input costs are making it difficult for them. I believe we have a very efficient harvesting sector and anything that can be done should be considered. For example burning cane, reducing the number and distance of machine shifts, better headlands, combining blocks just to mention a few which are not major cost imposts for the individual but could mean quite a bit to a harvesting operation.

The cane railway system again functioned very well with no major derailments. The introduction of the pin restraining "cockatoo" on the 10 tonne bins contributed significantly to this outcome. The new line past the cemetery and near the effluent ponds to the west is a real benefit to the growers and harvesting sector as well as the community at large by taking cane delivery off public roads.

Proserpine Sugar Mill has been accredited as a power station by the Office of the Renewable Energy Regulator (ORER), which means that it can earn Renewable Energy Certificates (REC). A five year arrangement with Ergon Energy involves the provision of the new 66kV sub-station, preferential pricing on electricity exports to the grid, and a sharing of the REC. Further, Ergon Energy has been conducting a pre-feasibility study into increased co-generation

opportunities to explore ways of maximising export power so that the export capability of the sub-station can be utilised. The replacement of Q124 with higher-fibre canes is expected to provide more bagasse to support this project.

The 2002 season will see the last of the four tonne bins. The maintenance of these is excessive and they are rate limiting. It will be quite a relief to be able to put them off the line.

It is very apparent that throughput is vital to the viability of the Co-operative. The Mill Board in conjunction with CANEGROWERS has released another 2 000 hectares for expansion for cane to be delivered in the 2003 and 2004 seasons. I feel it is a big ask for growers to develop with low prices on offer but as one grower said to me "I would rather be producing 20 000 tonnes at a margin of \$5 than 10 000 tonnes at a margin of \$5".

In my report last year I mentioned the pressure that the industry is under. The margins are getting smaller and the pressures from outside the industry and within are not going away. We have seen South Johnstone Mill taken over, Tate and Lyle sold to Finesucre, a Belgian firm and although CSR has not disposed of its sugar interests it is contemplating rearranging its involvement in the industry. In light of these developments the Board and management looked at options that our Co-operative has to sustain and grow its position in the industry. I believe it would have been remiss of us not to look at the possible options before us. We felt that it is far better to be a part of the decision making rather than being forced into a position where you have very little say. With this in mind we have entered into discussions with Mackay Sugar on a possible merger of our two Co-operatives. Following those discussions we held four shed meetings with the members and meetings with employees which outlined in a broad sense the pros and cons of the possible merger. Written presentations together with questions and answers from the various meetings were sent to each member and employee. Further meetings with members and employees will take place in the future. I wish to stress that the decision to merge is not a Board decision. 75% of the members in each Co-operative must approve the merger before it can happen. It is a major decision for our Co-operative and the Board encourages every member of the Co-operative to be well informed of the advantages and disadvantages of the merger. As Chairman of the Board I ask you to view this decision with an open mind as it is not for the individual's benefit but for the Co-operative as a whole and the security and viability of our sons and daughters and families for the future.

The Federal Minister for Agriculture, Fisheries and Forestry, the Hon Warren Truss MP has appointed Dr Clive Hildebrand to conduct an independent assessment of the Australian sugar industry and submit a final report, including findings and recommendations by mid-June 2002. The assessment is part of the industry assistance package process and our discussions with government have indicated that it will be a "warts and all" report. Clearly government is expecting the cane industry as a whole to respond to the pressures which globalisation and in particular Brazil have placed on world sugar prices. Your Co-operative will make appropriate submissions to the assessment.

It is with sincere regret and sadness that I note the passing of Peter Valmadre former Director for 24 years including 10 years as Chairman on 15 April 2001 and Terry Hinschen former Director for 12 years on 2 May 2001.

Congratulations to Allira Norman and Stephen Dekker who were awarded Proserpine Mill bursaries for 2001 year 10 students and Jason Quod and Carlie Rogers who received the Douglas Debney and George Telford memorial bursaries for year 12 students.

I take the opportunity to thank Ivan Ivanoff for his contribution to the Proserpine Cane Protection and Productivity Board as a grower elected member. Ivan retired this year from the PCPPB having served eighteen years on the Board, fourteen of those as Chairman.

The crop for the forthcoming season is looking much better than that of the last two seasons. Please God a crop of about 2 000 000 tonnes will be realised and the CCS is reasonable, as these will help the district manage the lower sugar prices that are currently projected.

On behalf of the Board I wish to express our appreciation to the management, staff, and employees for their unselfish dedication and a job well done.

I wish to thank my fellow Board members for their support during the year and it has not been an easy one. Geoff Valmadre and I retire by rotation this year and offer ourselves for re-election.

F W (Dick) Dray
Chairman of Directors

OPERATING REPORT

Operating Performance

The 2001 season commenced at 4pm on Tuesday, 26 June with the expectation of a crop of 1.66 million tonnes of cane available for harvest. When the season closed just 15.62 weeks later at 12.22am on Sunday 14 October, all of the available cane had been harvested and 1 445 175 tonnes had been crushed. With 22 268 hectares harvested, the crop averaged 64.9 tonnes of cane per hectare which is a 21% reduction on the five-year average of 81.6 tonnes per hectare. The poor crop can be attributed to a combination of factors including:

- Wet weather in November 2000 which waterlogged paddocks of young plant cane, disrupted the response of young ratoon canes and prohibited growers from properly attending to young canes.
- The incidence of plough-out replant crops to replace Q124.
- A cutback on agricultural inputs by some growers particularly in Q124 in response to tight cash flows following the 2000 season and the added expense of treating cane affected by orange rust and replacing Q124.
- Orange rust in Q124 which was grown on 63% of the harvested area.

The factory crushed cane for 86.39% of the available time with 1.33% absorbed by scheduled maintenance stops, 7.69% taken up by unscheduled factory stops and 4.6% lost because of lack of cane supply. Failure of the bagasse transfer belt and a design fault in the turbine associated with the new No. 5 mill, a blockage in a boiler ducon and a failure of a thrust bearing on No. 2 mill turbine were the most significant incidents contributing to unscheduled factory stops. Although the factory's crushing rate was intentionally restricted to the lowest possible, the poor crop meant that the harvesting sector struggled to maintain continuous cane supply to the factory. In the circumstances, the harvesting sector's contribution was exceptional.

At an average CCS of 15.06, the crop yielded 222 770 tonnes IPS sugar and 41 075 tonnes of molasses. 15% of the sugar complied with Queensland Sugar's standards for all sugar quality parameters and only 1% of production attracted premiums.

Capital Expenditure and Major Projects

Capital expenditure for the year ended 28 February 2002 amounted to \$2.6 million. The major project for the year was the completion of the installation of No. 5 mill.

Some of the major capital and maintenance items were:

- ◆ The installation of a new **2550 mm x 1375 mm crushing mill** in the No. 5 mill position was completed by Bundaberg Foundry with I Power Solutions installing the specialist electrical equipment. It was the first mill installed in the Australian sugar industry with electro-mechanical variable speed pressure feeder and underfeed drives. As part of the installation of the new mill, No's 2, 3 & 4 mills had bigger diameter top rollers installed. This will mean that rollers will first be installed in No. 5 mill and, as they wear, will be moved progressively from No. 5 back through the milling tandem. This was done to increase the overall life of the roller shells.
- ◆ The new **intermediate carrier** to No. 5 mill was fabricated on site by Proserpine Sugar personnel
- ◆ The existing **milling train control system** was modified to encompass the requirements of No. 5 mill. This involved the writing of PLC code and creation of SCADA graphics. All other ancillary drive, control and communication cabling was installed from extensions to the existing milling train cable tray routes.
- ◆ Ergon Energy installed a **10 MVA 66/11kV substation** to enable export power capacity to be increased to 10MW.
- ◆ **Phantom shades** (louvers) were installed on the North Gregory cane railway crossing lights in an effort to reduce the effect the sun has on the lights in the early morning and late afternoon. The sun makes the lights glow which makes it difficult for the public to determine whether the lights are flashing or not. Other crossings that may have the same problem will be investigated as they are identified.
- ◆ A 1.3 km section of the **effluent line** from the effluent ponds to the north of Pig Creek was replaced.
- ◆ The **bagasse truck** with the walking floor worked well.
- ◆ The major rebuilding of the **mill pressure feed chutes** during the 2001 maintenance season proved successful with no problems encountered for the 2001 season.
- ◆ After the failure of blades on one of the **fans on the injection-water cooling tower**, three sets of blades were replaced during the 2001 maintenance season.
- ◆ **No. 7 pan calandria** was completely retubed.
- ◆ 240 tubes were replaced in **No. 2 pan calandria**.
- ◆ **Cane elevator head and tail shafts** were replaced.
- ◆ First motion input **shaft bearings** on No's 2, 3 & 4 low speed mill gearing were replaced.
- ◆ Downcomer **boiler tubes** on No. 1 Boiler were replaced.

- ◆ No's 6 & 7 **turbo alternators** were tested and no faults were found.
- ◆ Communication and monitoring systems to support the **cane transport operations centre** were installed.
- ◆ The **UHF radio system** in the factory was upgraded to improve reception where it was poor.

People Matters

Kevin Thomson (**36 year's service**), Ray Inderwisch (**25 years**), Wolfgang Blumoser (**20 years**) and Melvyn Moore (**14 years**) retired during the year.

The tragic and unexpected passing of **Lionel Hiscox**, an employee for 36 years on 11 November 2001 came as an enormous shock to his relatives, friends and workmates.

Other staff movements were:

Ericka Fraser was appointed to the staff of the Association on 1 April 2001. On 1 July, **Tom Stoneham** was promoted to Maintenance Engineer following the resignation of **Barry Crisp**, **Matthew Linneweber** (Electrical Systems Engineer) and **Rodney Hinschen** (Transport Operations Supervisor) were appointed to staff and **Russell Reardon** took up the position of Maintenance Co-coordinator. **Keith Matthews** was appointed Control Systems Engineer on 9 July. **Richard Badger** (Shift Chemist) resigned on 30 June while **Michael Malone** (Workplace Health & Safety Officer) and **Angela Bailey** (Employee Relations Officer) resigned on 21 December.

An office trainee and six apprentices were engaged early in 2002.

Industrial Relations Matters

Negotiations for **Certified Agreement (IV)** started in late 2000 and a two-year agreement was ratified by the Industrial Relations Commission on 25 July 2001. The agreement provides for a pay increase of 2% per annum and introduced the concept of Continuous Improvement Measures (CIMS) whereby specified targets are to be achieved to increase pay increases from 2% up to 3% in 2001 and from 2% up to 4% in 2002. Definitions, relative weightings, base levels (3 year averages) and targets for nine measures covering sugar quality, pol loss in mud, bagasse moistures, milling extractions, factory lost time, consumables used, cane bins derailed, labour utilisation and water usage were agreed through a consultative process with the workforce in small groups. 2001 saw mixed results and scores achieved were not sufficient to support a pay rise beyond the 2% that was effective from 16 June 2001. It was agreed in December 2001 that a number of groups would be formed to review each of the improvement measures and to consider the targets set, look at what happened in 2001 and recommend ways to improve the system for 2002. It has been agreed that the maximum pay increase available for 2002 will be increased from 4% to 5%. The CIMS seek to align the objectives of the workforce with those of the Association and provide for a sharing of the gains made from improved outcomes. Encouragingly, as well as providing a creditable industrial outcome, the process has also seen more of the workforce become interested and involved in improving factory operations in all areas.

Under the housekeeping section of the **employee incentive scheme**, employees shared in a bonus pool of \$112 500 in April 2001 for their efforts. The crop and factory efficiency sections of the scheme saw a pool of \$185 800 shared amongst the workforce in December 2001. In another clear demonstration of goodwill by the board of directors the scheme was modified in April 2001 with the overarching element in regard to strikes no longer applying to the housekeeping section.

In August 2001 in the Industrial Relations Commission the decision on **shift allowances** in the sugar industry was that the allowance should increase from a flat \$10.70 per afternoon and night shift to 12% for afternoon shift and 14% for night shift from 23 September 2001 and 12½% for afternoon shift and 15% for night shift from 23 March 2002. The decision was appealed by the Australian Sugar Milling Association, Queensland, and Union of Employers on the grounds that it erred in law on the evidence and did not properly consider all of the relevant circumstances. On 25 January 2002, President Hall of the Industrial Court dismissed the appeal but clarified that the percentage allowances be calculated on the Award rate of pay.

Training and Workplace Health and Safety

Training of personnel is an on-going activity to satisfy skill needs, meet statutory requirements, facilitate greater flexibility in the workforce and improve operations generally. During the year ended February 2002 there were in-house and external courses, seminars, workshops and conferences on safety, overhead crane, dogging, process control, maintenance planning, risk assessment, hydraulics, crop forecasting using satellite imagery, accounting standards and financial reporting, marketing a co-operative, co-operative structures and capital raising, sugar price risk management etc. Visits to other sugar mills are also important with issues such as mud filters, boilers, cane bin hoists, laboratory

OPERATING REPORT

processes, and effluent treatment being of particular interest during 2001. Seminars and annual conferences and seminars of Australian Sugar Milling Council (ASMC), Co-operative Federation of Queensland (CFQ), Sugar Research Institute (SRI), Sugar Industry Development Advisory Council (SIDAC) and Australian Society of Sugar Cane Technologists (ASSCT) were useful avenues for the skill development of personnel including directors.

The **Sugar Industry (Workplace Health and Safety) Taskforce** inspected the factory and met with senior staff and the Workplace Health and Safety Committee on 5 March 2001 as part of its investigation and deliberations. The Association also contributed with a response to the "Discussion Paper and Call for Comment". The recommendations of the Taskforce are presently with the Minister of Industrial Relations.

A **Queensland Sugar Milling Generic Induction Program** has been put in place through the ASMC Workplace Health and Safety Committee.

The Sugar Milling Safety Conference in Bundaberg in March 2001 with the theme "Safety – The Next Level" saw the launch of the **Sugar Milling Operations- Industry Audit Program** which will provide a mechanism for monitoring compliance with the Industry Code of Practice. **Peter Murphy** and **Michael Malone** gave a presentation on safe lifting of mill rollers in the session on "Practical Solutions to Safety Problems".

Routine testing of the six cooling towers detected a positive **legionella** count in two of them. One tower required chemical disinfection only while the other was disinfected and thoroughly cleaned by removing the fill and washing with water jets.

Environmental Matters

Following leaks from the **effluent line** that have occurred in recent years, the worst section from Pig Creek to the effluent ponds was replaced prior to the 2001 season and operated without incident. The whole line will be replaced before the start of the 2002 season. The treatment of waste water with an organic product that is made by fermenting molasses using yeasts, photosynthetic bacteria and fungi has, as expected, replaced algae and slimes with a biological community that processed the water to a much higher quality.

The annual testing of **stack emissions** for particulates again confirmed that Proserpine Sugar Mill was complying with the relevant environmental legislation with emissions at 10% of that allowed in the environmental license.

Grower/ Member Matters

The **Collective Agreement** for the 2001 season was for the most part the same as that which applied for season 2000.

The only significant change was the introduction of a cane quality scheme based on pH of juice and ash in the cane supply. The scheme was introduced to provide incentive to supply fresh cane that was low in ash. The scheme was operated on a daily basis with two pools, one for day harvesters and the other for night harvesters. The main points of the scheme are summarised below:-

- For cane with a pH below 4.8 there was 50 cents per tonne deduction.
- The 15% of cane with the lowest ash (as measured by the NIR analyser) attracted 42 cents a tonne bonus.
- The next 30% lowest in ash received 21 cents a tonne bonus.
- Cane that had high dirt levels had the CCS reduced by one sixth of the difference between laboratory and NIR analysis of the ash content.
- Details of bonus payments from the scheme were reported to growers and harvesters each fortnight.

Deterioration in cane is shown as a low pH. The deterioration products reduce sugar recovery and increase the dextran levels. During the 2001 season no cane was penalised for low pH. Certainly the amount of dirt in the cane was far less than seen in previous years. However it is difficult to quantify how much of this improvement was due to the cane quality scheme and how much was due to good harvesting conditions.

To assist grower members with the cash flow impost of applying **fungicide** to orange-rust-affected cane a total of \$1.022 million was advanced to growers prior to the 2001 crushing as interest-free loans that were repaid through the cane pay system by the end of the season.

Consistent with the decision made in July 1998 **four tonne bins** will not be available after the end of the 2002 season. To eliminate the need for four tonne bins for the road transport arrangements in the Conway-Preston area, McDonald's siding is being upgraded to accommodate a transloader for the 2002 season.

The **Proserpine Negotiating Team** has made available 2 000 hectares of cane production area (CPA) to be allocated by the Proserpine Cane Production Board in early 2002. The CPA is to supply cane no later than the 2004 season with CPA that can supply cane in 2003 preferred.

At the annual shed meetings in May 2001 and special shed meetings in November 2001 grower members were advised of progress in discussions on a possible merger with **Mackay Sugar**, a grower owned co-operative. Details of the presentations made at the shed meetings and at subsequent meetings with the workforce together with answers to questions raised at the meetings were sent to all members in December. The initiative is seen by the Board as the most appropriate response to the circumstances confronting the raw sugar industry. It is driven by the desire to strategically position both Co-operatives so that their businesses can grow vertically and horizontally by expanding raw sugar production and broadening their economic base.

The formal strategy of the **Whitsunday Rivers Integrated Catchment Management Association (WRICMA)** was launched by the Minister for Natural Resources and Mines in April 2001.

An exempt market for the trading of "G" class shares in **Sugar Terminals Limited** operates from early March 2002.

Two grower branches accepted the invitation to **tour the factory** in September 2001.



Ergon Energy 10MVA 66/11kV Substation installed in 2000 to increase export capacity to 10MW

OPERATING REPORT

Statistics

Group Size and Equipment Statistics

Group Size (Tonnes)	No of Groups	Group % of crop	Harvester types
100,000 +	1	7.3	2 x 7700 Austoft
60,000 - 80,000	10	47.2	10 x 7700 Austoft 2 x Cameco
50,000 - 60,000	5	18.9	5 x 7700 Austoft
40,000 - 50,000	2	6.4	2 x 7700 Austoft
30,000 - 40,000	4	9.3	4 x 7700 Austoft
20,000 - 30,000	4	7.3	2 x 7700 Austoft 2 x Cameco
Up to 20,000	5	3.6	2 x 6000 Toft 2 x 7000 Austoft 2 x 7700 Austoft
TOTALS	31	100	35

MILL OPERATION STATISTICS

Crushing Season	2001	2000	1999	1998	1997
Number of suppliers	278	276	256	253	248
Tonnes of cane crushed	1 445 175	1 389 676	1 956 155	2 075 017	1 985 683
Season length (weeks)	15.6	15.1	20.3	27	24.1
Crushing rate (tonnes per hour)	637	637	612	603	562.4
Average CCS in cane	15.06	12.79	13.48	12.06	14.45
Average fibre in cane (%)	13.97	12.15	14.32	13.58	14.27
Green cane % supplied (as consigned)	56	67	57	70	61
Total extraction at mills (%)	97.20	95.77	95.56	95.86	95.22
Molasses made (% of cane)	2.84	2.97	2.91	2.90	2.64
Sugar made (tonnes IPS)	222 770	179 844	268 682	256 574	288 236
Pool Index	1.0228	1.0139	1.0206	1.0270	1.0052
Cane per tonne IPS sugar	6.50	7.72	7.28	8.09	6.89
Cane per hectare – tonnes	64.9	60.1	87.4	105.8	94.0
Sugar per hectare – tonnes	9.99	7.78	12	13.09	13.26

FINANCIAL REPORTS

**Statement of Financial Performance
for the twelve months ended 28th February 2002**

	Note	2002 \$	2001 \$
OPERATING PROFIT/(LOSS) before income tax and extraordinary items		<u>538,464</u>	<u>(8,192,572)</u>
INCOME TAX		0	0
EXTRAORDINARY ITEMS	3	<u>(170,000)</u>	<u>5,982,546</u>
OPERATING PROFIT/(LOSS) after income tax and extraordinary items		<u>368,464</u>	<u>(2,210,026)</u>
RETAINED EARNINGS AT BEGINNING OF YEAR		<u>42,494,559</u>	<u>44,704,585</u>
RETAINED EARNINGS AT END OF FINANCIAL YEAR		<u>42,863,023</u>	<u>42,494,559</u>

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Statement of Financial Position as at the 28th February 2002

	2002 \$	2001 \$
CURRENT ASSETS		
Cash and deposits.....	10,362,203	1,963,545
Debtors and prepayments.....	12,820,983	13,422,250
Inventory – at cost.....	2,980,121	3,086,776
Total current assets	<u>26,163,307</u>	<u>18,472,571</u>
NON CURRENT ASSETS		
Investment – at cost		
Property, plant and equipment		
Total non current assets		
TOTAL ASSETS		
CURRENT LIABILITIES		
Creditors and borrowings		
Provisions.....		
Total current liabilities		
NON CURRENT LIABILITIES		
Creditors and borrowings	20,731,743	18,505,923
Total non current liabilities	<u>20,731,743</u>	<u>18,505,923</u>
TOTAL LIABILITIES	<u>56,343,421</u>	<u>51,462,288</u>
NET ASSETS	<u>113,535,205</u>	<u>113,166,741</u>
EQUITY		
Reserves		
Asset revaluation reserve.....	68,389,307	68,389,307
Capital profits reserve	582,512	582,512
Loan redemption reserve	1,700,363	1,700,363
Retained earnings	42,863,023	42,494,559
TOTAL EQUITY	<u>113,535,205</u>	<u>113,166,741</u>

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**Statement of Cash Flows
for the twelve months ended 28th February 2002**

	2002 \$	2001 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers.....	77,074,130	46,553,724
Payments to suppliers and employees	(65,429,506)	(49,113,822)
Interest received.....	345,058	368,701
Interest paid and borrowing costs	(2,870,692)	(2,790,714)
Extraordinary items	(170,000)	(470,058)
Net cash provided by operating activities	8,948,990	(5,452,169)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(2,625,398)	(8,426,766)
Proceeds from sale of plant and equipment.....	17,773	12,084
Net cash used in investing activities	(2,607,625)	(8,414,682)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	4,439,935	19,300,000
Repayment of borrowings	(2,000,000)	(13,108,198)
Lease liabilities	(382,642)	(344,994)
Net cash used in financing activities	2,057,293	5,846,808
NET INCREASE /(DECREASE) IN CASH HELD	8,398,658	(8,020,043)
CASH AT THE BEGINNING OF THE REPORTING PERIOD	1,963,545	9,983,588
CASH AT THE END OF THE REPORTING PERIOD	10,362,203	1,963,545

FINANCIAL REPORTS

Notes to and forming part of the Accounts for the twelve months ended 28th February 2002

NOTE 1: Basis of preparation of the Concise Financial Report

The financial statements and specific disclosures included in the concise financial report have been derived from the financial report. The concise financial report can not be expected to provide as full an understanding of the financial performance, financial position, and financing and investment activities of Proserpine Co-Operative Sugar Milling Association as the financial report. The concise financial report has been prepared in accordance with Accounting Standard AASB1039 and the accounting policies have been consistently applied and are consistent with the prior year.

NOTE 2: Operating Revenue

	2002	2001
	\$	\$
Sales Revenue	76,120,224	47,028,517
Interest	356,743	368,701
Profit/(loss) on disposal of non current asset	(25,681)	(31,640)
Other	190,732	231,390
Total operating revenue	<u>76,642,018</u>	<u>47,596,968</u>

NOTE 3: Extraordinary Items

	2002	2001
	\$	\$
Income – gift of shares in Sugar Terminals Limited	0	6,452,604
A levy of \$170 000 was paid to the Department of Natural Resources as settlement of outstanding benefited area charges from 1997 – 1999 on the Proserpine River and Six Mile Creek Water schemes	(170,000)	(470,058)
Total extraordinary items	<u>(170,000)</u>	<u>5,982,546</u>

Directors' Report

The Directors present their report and the financial statements of Proserpine Co-Operative Sugar Milling Association Limited for the 12 months ended 28 February 2002.

Directors

The name and profile of Directors in office for the 12 months ended 28 February 2002 follow.

Frederick William Dray

Elected Chairman of the Board of Directors in 1998, and retained this post to the date of this report. Was Deputy Chairman from 1983 to 1993, and has been an elected director from 1971 to 1980, and since 1981 to current.

Luigi James Raiteri

Elected Deputy Chairman in 1998 and retained this post to the date of this report. Also held the post of Deputy Chairman from 1993 to 1994. First elected Director in 1991 to 1994, and then again in 1996 to current.

Russell William Biggs

Elected Director since 1994.

Ivan Vincent Ivanoff

First elected Director in 1992 and served to 1995 and then again in 1997 to current.

William Alexander Lade

Elected Director since 1998.

John David Mau

Elected Director since 1992. Deputy Chairman from 1994 to 1997.

Geoffrey Valmadre

Elected Director since 1984.

A record of Board Meeting attendance for the 12 months ended 28 February 2002 follows.

Board Meeting Attendance				
Directors	Regular Meetings		Special Meetings	
	Held	Attended	Held	Attended
F W Dray	11	11	5	5
L J Raiteri	11	11	5	4
R W Biggs	11	11	5	5
I V Ivanoff	11	10	5	4
W A Lade	11	10	5	4
J D Mau	11	11	5	5
G Valmadre	11	11	5	5

DIRECTORS' REPORT

Primary Activity of the Association

The primary activity of the Association is to acquire, transport to the factory, and process the sugar cane of the members and to distribute the commodities produced from such cane.

Review of Operations

A review of the operations of the Association during the 12 months ended 28 February 2002, and the results of these operations, are included in the preceding sections of this report.

Operating Results

The cane productivity was marginally better than the previous year but was significantly down on the previous five-year average resulting in a crop of only 1.445 million tonnes being available for crushing. This is significantly below the expectations in the strategic development plan which based on the cane production area available should have been over 2.3 million tonnes. The improved sugar price for the year meant that the Association was able to make a marginal profit despite the poor crop.

Events Subsequent to Balance Date

There has been a major downturn in world sugar prices in 2002 that will have a major impact on sugar income. The board and management are undertaking reviews of their strategic development plans and budgets for the coming season based on the current sugar prices.

Future Developments

The board has continued negotiations with Mackay Sugar Cooperative Ltd with a view of merging the two entities. Further communication meetings will be held with members, employees and the community when any proposal is developed.

Environmental Regulations

Proserpine Co-operative Sugar Milling Association Limited is subject to environmental regulations under the *Commonwealth Environmental Protection and Bio-Diversity Conservation Act*. This Act regulates the Associations emissions to air, and also allows for the Association's emissions to land to be internally tested and regulated.

Indemnification of Officers

The Association has Directors' and Officers liability insurance which covers all loss which Directors and Officers have become legally obligated to pay on account of any claim for a wrongful act while serving the Association.



FW Dray
Chairman



LJ Raiteri
Deputy Chairman

Signed in accordance with a resolution of the Directors

DIRECTORS' DECLARATION

Directors' Declaration

In the opinion of the Directors of Proserpine Co-operative Sugar Milling Association Limited:

- (a) The financial statements and notes as set out on pages 9 to 14 are in accordance with the *Co-operatives Act 1997*, the *Co-operatives Regulation 1997* and the Rules of the Co-operative, including:
- (i) giving a true and fair view of the financial position of the Co-operative as at 28th February 2002 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date in accord with the basis of accounting described in Note 1; and
 - (ii) complying with Accounting Standards to the extent described in Note 1 and including the applicable provisions of Chapter 2M.3 of the Corporations Law; and
- (b) There are reasonable grounds to believe that the Co-operative will be able to pay its debts as and when they become due and payable.

Dated at Proserpine this 12th day of April 2002.

Signed in accordance with a resolution of the Directors.



F W Dray
Director

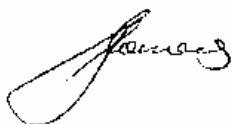


L J Raiteri
Director

Statement by Principal Accounting Officer

I, Christopher George Connors, being the officer in charge of the preparation of the accompanying accounts of Proserpine Co-operative Sugar Milling Association Limited for the year ended 28th February 2002, state that to the best of my knowledge and belief such accounts give a true and fair view of the state of affairs of the Association as at 28th February 2002, and of its results for the year ended on that date.

Dated at Proserpine this 12th day of April 2002



C G Connors
Principal Accounting Officer

AUDITOR'S REPORT

Independent Auditor's Report

To the Members of Proserpine Co-operative Sugar Milling Association Limited,

Scope

We have audited the financial report of Proserpine Co-operative Sugar Milling Association Limited for the financial year ended 28th February 2002, consisting of the statement of financial performance, statement of financial position, statements of cash flows, accompanying notes and the directors' declaration as set out on pages 9 to 15. The Co-operative's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Co-operative.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the Co-operative's financial position and the financial performance as represented by the results of its operations and its cash flows.

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

Audit Opinion

In our opinion, the financial report of Proserpine Co-operative Sugar Milling Association Limited is properly drawn up:

- (a) so as to give a true and fair view of the Co-operative's financial position as at 28th February 2002 and of its financial performance for the financial year ended on that date;
- (b) in accordance with the provisions of the *Co-operatives Act* 1997 and *Co-operatives Regulation* 1997 including applicable provisions of Chapter 2M.3 of the *Corporations Law*;
- (c) in accordance with the Rules of the Co-operative; and
- (d) in accordance with Accounting Standards and other mandatory professional reporting requirements.



Date 12th April 2002
Address 86 Main Street
Proserpine Qld 4800

Firm C E Smith & Co Proserpine
Chartered Accountants

Partner A V Carroll