

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

**Seventy Third Annual Report
Year ended 29th February 2004**

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
Laurie Watson	Chief Chemist
Peter Guernieri	Chief Electrician (to 26/5/03)
Eddie Childs	Chief Electrical Engineer (since 19/1/04)
Ron Worth	Cane Supply Manager

Registered Office

Main Street
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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

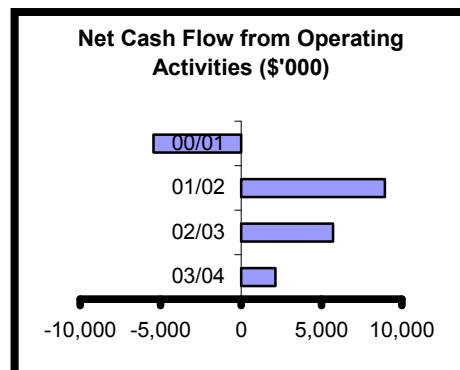
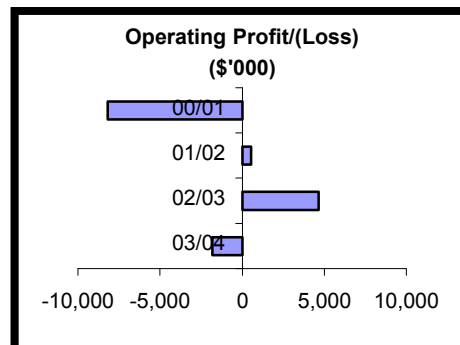
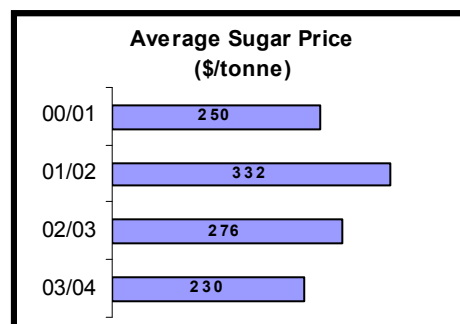
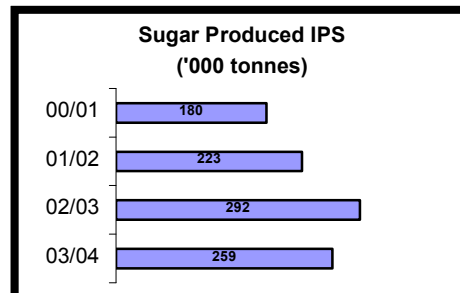
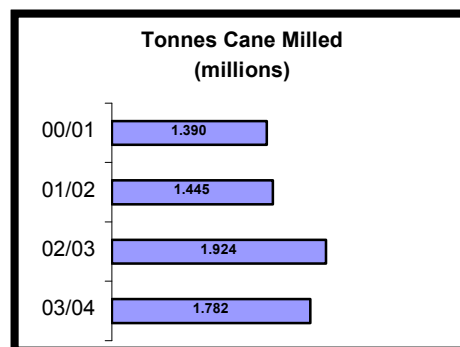
- **Cane Harvested – ↓ 7.3% on last year**
1.782 million tonnes of cane were harvested in the 2003 season, compared to 1.924 million tonnes in 2002.
- **Sugar Content – ↓ 4.5% on last year**
CCS went from 14.74 in 02/03 to 14.1 in 03/04.
- **Sugar Production IPS – ↓ 13% on last year**
Despite maintaining a high factory efficiency (Pool Index), a decreased crop and a lower CCS resulted in a comparative drop in sugar make for the year.

Financial Performance

- **Total Income – ↓ 21% on last year**
A decreased sugar make and sugar price, coupled with less income from electricity generation resulted in a total decrease in income of \$5.97 million compared to 02/03. This was slightly offset by an increase in interest received for the year and a higher level of sugar premiums.
- **Operating Loss – \$1,806,635**
The dry weather experienced during the year resulted in a drop in the overall crop which, combined with a continual downward trend in sugar prices, has produced a loss for the year. The Co-operative however generated a cash operating surplus of \$2.1 million.

Future Prospects

- Given the more favourable weather conditions this year as compared to last, the Co-operative is budgeting for an increased crop for the 2004 season. However, sugar prices are expected to remain depressed so the focus is on maintaining strict cash flow controls and high factory efficiencies.



CHAIRMAN'S COMMENTS

Chairman's Comments

Once again it is my privilege on behalf of the Board of Directors to submit the 73rd Annual Report to you the members of Proserpine Co-operative Sugar Milling Association Limited.



A year that we had hoped would give us a reasonable growing season turned out to be one of the driest on record with the wet season producing fair rain in February, thirty millimetres in March and finally some rain at the end of April and early May which produced a crop of 1.78 million tonnes. This tonnage would not have been achieved without the tenacity of you, the growers, continually irrigating where possible up to the harvest. The Proserpine area responds well after drought, and some of the unirrigated areas like Cannon Valley and Strathdickie that looked extremely backward in April recovered reasonably well to cut over 60 tonnes to the hectare.

The estimate of 1.7 million tonnes looked a bit high early on but 1.78 million tonnes with a CCS of 14.10, which gave an average of 76.5 tonnes to the hectare was a fair result, all things being considered. A 20% increase this year could give us a crop of 2.1 million.

The crushing rate was restrained to 632 tonnes per hour because of the poor crop and harvesting conditions in some areas. The season length was 18.7 weeks with good factory results including milling extraction of 97.58%; factory efficiency of 1.0312 (the same as last year) and 81% of sugar produced attracting a premium. Results like this justify the installation of No. 5 mill when you consider that, prior to the installation, extractions of 95.5% and 94.8% and efficiencies of 1.0270 and 1.0003 were the order of the day. These results, I believe, will help in the long term to keep our Mill viable provided we can keep cane production well over 2 million tonnes.

I must once again commend the harvesting sector for a reliable cane supply with only twenty-nine hours of lost time in the mill occasioned by cane supply shortages. During the crushing the use of a new innovation, the multiplier in which two or three rows were put into one for harvesting, proved to be very successful and improved the efficiency in harvesting poor crops of up to fifty tonnes to the hectare. The introduction of this new innovation shows that the industry is always looking for more efficient ways to cut costs. The multiplier was designed and developed by a cane farmer. Perhaps our farmers are far brighter and more efficient than some politicians, bureaucrats and economists may give them credit for.

This year saw the cane railway system free of four tonne bins with another thirty ten tonne bins added to the fleet. The performance of the cane railway operations was marred by a major locomotive collision near the Pound Yard Siding in which two Baldwin locomotives were practically written off. Thank God no fatalities occurred. One driver's assistant had a leg fractured and the Association, as it always does, ensured that all personnel, not only those directly involved, were assisted to overcome this very traumatic incident. The two Baldwin locomotives are being restored under insurance but there is an excess that will have to be carried by the Co-operative. Both Baldwins should be back in circulation by the end of May ready for the 2004 crush. This incident together with another two, one at the diamond crossing Up River and another at the new Lethebrook points, caused eighteen bins to be taken out of use by damage. Of these, it is expected that fourteen will be restored for the 2004 season. Thorough investigations were undertaken on all incidents and appropriate actions were taken to prevent future occurrences. It is important to recognise that none of these incidents were caused by cane railway conditions. I wish to express our appreciation to Mackay Sugar for making available three small locomotives to stand in and help us keep up the bin supply to the harvesting sector.



During a scheduled maintenance stop on 29th October, a cane and grass fire started accidentally in a trash blanket on the northern side of the Proserpine River and made its way to the southern bank and into sugar cane to the west of the factory. Thick smoke forced an evacuation of personnel from the factory except for

those who were critical to the cleaning operation and could shelter from the smoke in control rooms. Eventually, while emergency services prepared to back-burn the riverbank the fire ignited bagasse storage heaps. Thanks to the efforts and assistance of the fire brigade, rural fire fighting groups, local volunteer farmers and employees the fires in the bagasse heaps were quickly brought under control and contained. Unfortunately, four people involved in fighting the fire were overcome by smoke and were admitted to hospital for treatment and observation for a few hours. The incident delayed the restart of crushing for just 1½ hours. This would have been much longer had the fire occurred while crushing was in progress. The bagasse heaps were monitored for spot flare-ups for a couple of weeks. Very little bagasse was lost but the incident did highlight the need to improve fire fighting facilities and some facets of the emergency procedures.



Many people assisted in controlling the cane and grass fire on 29th October 2003

A great deal of investigations have taken place during 2003/04 following our announcement last year that we were examining the feasibility of producing furfural at Proserpine Mill. The recent shed meetings outlined the progress on the project and were called to give our members an opportunity to have open and frank discussions. As members were informed, there are quite a few questions and economic assessments to be considered before a final decision can be made to proceed. The robustness of the feasibility study has also been supported by our bankers with Westpac providing a \$9 million credit facility. The project is being considered with the specific aim of not only delivering more security for the Co-operative but also at generating additional income for distribution to growers within a short time frame (five years). The project has proceeded well and the final engineering design is being completed by Kellogg Brown & Root. A comfort costing will be undertaken after receipt of tenders for the reactors before the final decision is made whether to proceed.

I believe our Co-operative is one of the best in its mill efficiencies, extractions, sugar quality, general mill performance, transport grouping and harvesting operations. A major contributor to these outcomes is the relationship amongst the Board, management, growers and employees. It is the envy of other areas. Management views the Mill not only as a business but as an integral part of the full Co-operative and always considers the overall district perspective in any decision. The Board sees its role as your representative in the well being of the Co-operative and the more open and honest the relationship grows, the better for all concerned.

As indicated in the financial reports, the Board has recommended to members a fully franked distribution that will distribute the Co-operative's franking credits from Sugar Terminals Limited to members in early June 2004. The Board's position on these franked dividends is that the tax credits should be credited to members as quickly as possible.

Whitsunday Shire Council completed the upgrade of the Conway Beach Road from Orchid Creek to McDonald's Siding in time for the road transport operation to use it in 2003 and without accessing the loan monies made available by the Co-operative.

The prospects for the 2004 season so far look promising with excellent seasonal conditions creating the prospects of a good crop. The industry however is going through the toughest time in its history. Corrupt sugar markets, high exchange rates, poor seasons, and a poor price have all taken their toll. It is hoped that restructuring of the industry with government financial help will tide us over the next couple of years when we are led to believe things could improve. I believe, to survive in these times, we must have faith and confidence in ourselves and our Co-operative and keep producing as much cane as efficiently as we can. We all need one another to keep going because if twenty per cent of us drop out that would sound the death knell for the industry and our Co-operative in this area.

Congratulations to Dale Mengel and Conrad Fontes who were awarded Proserpine Mill bursaries for year 10 students in 2003 and to Chris Porter and Allira Norman who received the Douglas Debney and George Telford memorial bursaries for year 12 students.

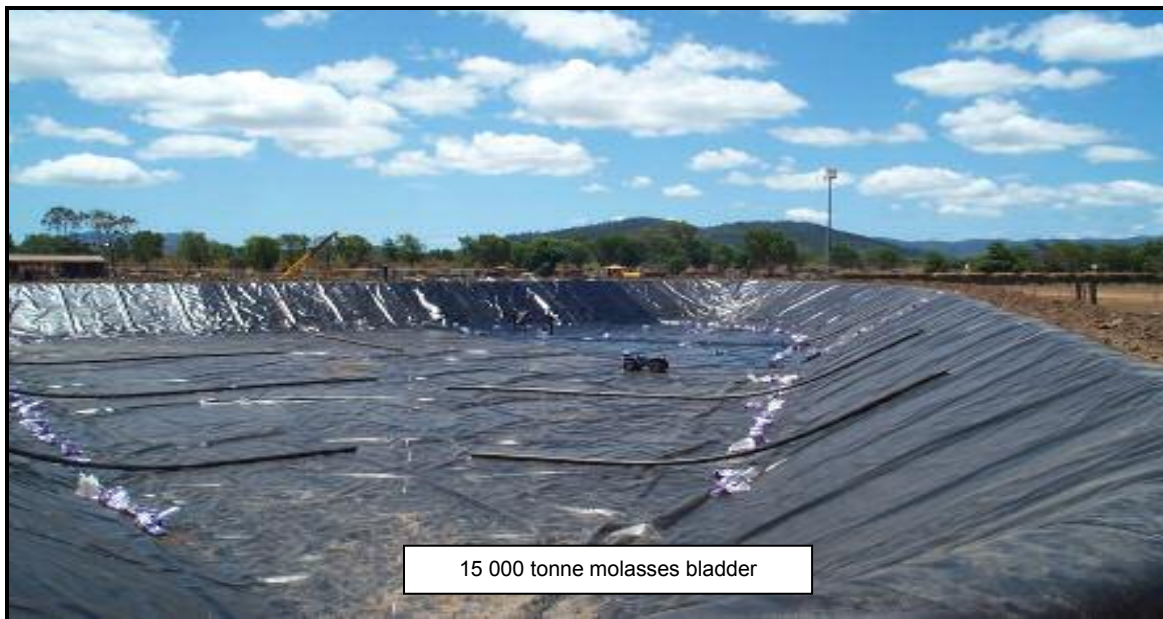
CHAIRMAN'S COMMENTS

On behalf of the Board I wish to express our appreciation to the management, staff and employees for a top performance again.

I wish to thank my fellow board members for their support during the year.

Bill Lade, Lui Raiteri and John Mau retire by rotation this year and offer themselves for re-election. I wish them all the best.

F W (Dick) Dray
Chairman of Directors



In the latter part of the season, when molasses storage in the Mackay region became critical, a decision was made to install another 15 000 tonne bladder. This was installed in a matter of weeks and was filled just as the crushing came to an end saving a possible extension of the crushing season. Our total on-site storage is now 40 000 tonnes and it certainly delivers more flexibility in being able to handle a market that at times can be quite volatile. It also provides extra storage for local growers and long-term customers in the future.

Operating Performance

The 2003 season commenced at 10am on Tuesday, 8th July with the expectation of about 1.7 million tonnes of cane available for harvest. When crushing ceased just 18.7 weeks later at 2am on Sunday, 16th November, all of the available 1 782 389 tonnes of cane had been harvested from 23 308 hectares. At 76.5 tonnes of cane per hectare the crop was well below the productive capacity of the district of 90 to 95 tonnes per hectare. All sectors would welcome a return to favourable weather conditions which will be critical if the necessary improvement in the crop is to be realised.

The factory crushed cane for 89.97% of the available time with 0.78% absorbed by scheduled maintenance stops, 8.33% taken up by unscheduled factory stops and 0.92% lost because of cane supply shortages. The average weekly throughput was 95 547 tonnes of cane with week 9 recording the highest throughput of 103 953 tonnes. At 632 tonnes of cane per hour the crushing rate was intentionally constrained to assist those harvesting groups with poorer crops. The consistency of throughput and average fibre levels of 13.85% on cane combined to minimise the need to use extraneous fuels.

At an average CCS of 14.10 and excellent factory efficiencies headlined by record milling extractions of 97.58%, the crop yielded 259 197 tonnes IPS sugar and 60 486 tonnes of molasses. The quality of the sugar was the best ever for Proserpine Mil with 81% of the sugar complied with Queensland Sugar's Premium Customer Grade and attracted a premium. This was the fifth best performance in the State for 2003.

Bonuses amounting to \$216 713 were paid to growers as financial incentives to supply fresh cane that is low in ash, trash, tops and dirt under the cane quality scheme. Dry conditions through the crushing season and the cane quality scheme combined to produce low dirt levels in cane, which contributed significantly to the reduced factory downtime. Comparisons with other sugar mills in the region suggest that the cane quality scheme has had a significant impact.

At 3.39% on cane, molasses make was higher than usual. This was virtually repeated across the industry presenting significant challenges to dispose of and/or store molasses so as not to interfere with the crushing. Although the Co-operative had rights to about 10 000 tonnes of storage at Mackay Harbour by virtue of its participation in the Molasses Central Queensland Joint Venture, this option was not taken up as it would not have been in the best interests of the other joint venture partners. Rather, a 15 000 tonne bladder, which was planned for the future, was installed.

The 2003 harvest, being very dry, was not interrupted. This had several effects on the harvesting sector. In combination with a smaller yield than last year and the dry conditions, it was hard going for some and there were not many opportunities to stop for maintenance. Some groups, who were experiencing difficulties, were covered by others who, thankfully, tended to make up the shortfall.

The lost time for cane supply of less than 30 hours this season and only 42 hours last season compared to 120 hours in 2001, is testament to how dry these years have been.

Because of the lower estimate than the previous year and the perception of the difficulties which may have been experienced in the field, the crushing rate was set at a slightly slower rate than last year. This, combined with the invitation to the full time groups to "book in" maintenance days, may have contributed to easier going than last year for most. There were still a few groups though that did not have it any easier than last year.

The finish to the season was fairly smooth with all but two groups harvesting on the last day and all but two harvesters had a reasonably comfortable finish. There were no factory stoppages waiting for cane at the end of the season.

The variety Q124 continues to decline in area. The relative area harvested in 2003 was just over 19% and the 2004 season's forecast indicates less than 10% of the area will be under Q124. Q124 declined to an average yield of just 57 tonnes per hectare for season 2003. The indication from the forecast shows a good uptake of some of the newer varieties.

OPERATIONS REPORT

Capital Expenditure and Major Projects

Capital expenditure for the year ended 29th February 2004 amounted to \$2.96 million with the major projects including 30 ten tonne cane bins, electromechanical drives in the cane tipper and cane feeding station and swirl bagasse feeders on No. 4 boiler.

On completion of the feasibility study in August 2003, the project to produce furfural from bagasse progressed to detailed engineering design stage. Kellogg Brown & Root Pty Ltd has carriage of the overall plant design including the distillation stage and the plant's integration with the raw sugar factory while the design of the reactors is being progressed by International Furan Technology (IFT), the firm that developed the SupraYield® process. Based on pilot plant results, the feasibility study identified the need to pre-dry bagasse so that the residue from the furfural reactors is suitable boiler fuel. The bagasse will be dried by baling and storing it for up to thirty days.

In collaboration with Sugar Research Institute (SRI), the conditions for strapless baling of bagasse have

been determined and a prototype baler is being built. The logistics of managing the baling, storage and retrieval of bagasse is being designed. When the design of the plant is complete and tenders for its construction and installation are assessed, the Board of Directors will decide whether the project will proceed based on a reassessment of the economics. The target date for commissioning of the plant is March-April 2005. During January 2004 the unsold portions of the former milling train were removed to make way for the furfural plant. Through the Department for State Development, the Queensland Government has supported the project with a grant of \$37 500 in support of the pre-feasibility study and a further \$250 000 has been made available to assist with the detailed engineering design. The Co-operative has secured sole rights to the SupraYield® technology in Australia and has an agreement with IFT that the technology cannot be used elsewhere in the world if it impacts on the Co-operative's market. The objectives of the project are to derive additional revenue and complement the revenue streams for sugar, molasses and electricity, to improve the distributions of surplus to grower members of the Co-operative as soon as possible and to create and secure employment within the industry.



L to R: Jon Buzzard of IFT and Furfural Manager, Laurie Watson inspecting the furfural pilot plant

The two Baldwin locomotives, which were seriously damaged in the unfortunate collision in July, are being rebuilt. Two Fiji Sugar Corporation disused Baldwin locomotives have been purchased for refurbishment as the need arises in the future.

People Matters

Luigi Faletto retired on 31st July 2003 after 38½ years as a labourer in the cane railway maintenance crew.

Staff movements during the year were:

Lisa Watson (Administration Officer) was appointed on 24th March 2003 with the resignation of Ericka Fraser from 17th April 2003. Tom Badger (Single Shift Supervisor) commenced on 10th September 2003. Colleen Heller resigned on 4th April 2003 and Brian Mitchell (Management Accountant) was appointed on 30th June 2003. Andrew Linneweber was appointed Single Shift Supervisor from 1st July 2003. Amanda Hadlow (Management Accountant) commenced on 20th October 2003 with Brian's resignation on 24th October. Kylie Kavanagh (Administration Officer) commenced on 15th December 2003. Eddie Childs was appointed Chief Electrical Engineer with effect from 19th January 2004 following the resignation of Peter Guernieri on 26th May 2003.



L to R: Ron Worth, Luigi Faletto (retiring after 38 ½ years service) and Robin Fraser



New administration staff L to R: Amanda Hadlow, Kylie Kavanagh, Katrina Hinschen & Lisa Watson

Eight apprentices and an administration trainee were engaged early in 2004.



Rear: Troy Dibben, Zack Hinschen & Callan Gilmore
Middle: Luke Connell, Tim Willisroft, Monty Appleton & Clint Green
Front: Supervisors Kevin Rains, Allan Whyte & Jeff Arnold



L to R: Chief Electrical Engineer, Eddie Childs and Single Shift Supervisors, Tom Badger and Andrew Linneweber

Congratulations and best wishes to all the recently qualified tradesmen who have left, or who will soon be leaving to further their careers. These include Phillip Zarb and Mark Brown (Engineering Tradesperson–Fabrication), Ryan Considine and Grant Buckingham (Engineering Tradesperson - Mechanical), Luke Malone and Dan Neill (Engineering Tradesperson – Electrical), Ken Compassi (Engineering Tradesperson – Diesel). Welcome to the incoming apprentices Troy Dibben and Tim Willisroft (Engineering Tradesperson - Mechanical), Zack Hinschen (Engineering Tradesperson – Fabrication), Callan Gilmore and Monty Appleton (Engineering Tradesperson – Electrical), Luke Connell and third year apprentice Clint Green (Engineering Tradesperson – Diesel).

The Association supported the 2003 Harvest and Craft Fair by entering a prize-winning float in the procession and proudly sponsoring Kimberley O'Connor as a Harvest Queen entrant.

Industrial Relations Matters

Negotiations for Certified Agreement (V) commenced in late 2002 and a three-year agreement to operate from 12th April 2003 to 11th April 2006 was ratified by the Industrial Relations Commission on 19th August 2003. The Agreement provides for a one-off lump sum payment of \$550 per employee and a wage increase of 3% initially and wage increases of 2% per annum thereafter. Further, continued in this agreement, is the concept of Continuous Improvement Measures (CIMS) whereby the extent to which certain targets are reached determines how much of the available pay increase is earned. The available maximum wage increases available for CIMS are 2% for 2003, 2% for 2004 and 3% for 2005. For 2003, the efforts of the workforce were rewarded with a wage increase of 1.57% from 12th December 2003.

Under the housekeeping section of the employee incentive scheme, the workforce shared in a bonus pool of \$135 000 in April 2003 while under the crop and efficiency sections of the scheme, a pool of \$235 600 was shared in December 2003.

Environmental Matters

The annual testing of stack emissions for particulates again confirmed that Proserpine Sugar Mill was compliant with the relevant environmental legislation with emissions at 8% of that allowed in the environmental licence.

Officers from the Mackay Environmental Protection Authority conducted an annual audit of the factory in October 2003. The main points raised related to stormwater management, licencing of the shot blast facility and bunding of all grease and oil storage areas. These matters have been addressed in the maintenance programme and by changes in operating procedures. The auditors were pleased with the cleanliness and whiteness of the stack plumes, the measures put in place at the locomotive shed to prevent oil contaminating the soil, the use of NQ Resource Recovery for waste disposal, the environment section of the handbook and the re-induction of employees.

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 2004 there were in-house and external courses, seminars, workshops and conferences on safety, first aid,

OPERATIONS REPORT

maintenance planning, resuscitation, sugar quality, electricity supply, locomotive driving, tractor driving, environmental issues, overhead crane, dogging, rigging, process control, risk assessment, accounting standards and financial reporting, etc. Visits to other sugar mills and regular meetings with other industry engineering and chemical personnel are also important. Seminars and annual conferences and seminars of Australian Sugar Milling Council (ASMC), Co-operative Federation of Queensland (CFQ), Sugar Research Institute (SRI), Bureau of Sugar Experiment Stations (BSES) and Australian Society of Sugar Cane Technologists (ASSCT) were useful avenues for the skill development of personnel, including directors.

Sugar Industry Reform

The Memorandum of Understanding between the State and Federal governments which provided for the release of up to \$150 million over four years was signed in September 2002. It took until February 2004 to finalise the legislative reform to support the \$30 million from the State government. The legislative reform provided for:

- Removal of the cane production area system from 1st January 2005.
- An exemption system from the domestic single desk for alternative products and bagged sugar for export but not for bulk raw sugar for use in manufacturing from 1st July 2004.
- In regard to arbitration in formulating a cane supply agreement, to move progressively from compulsory arbitration with final offer arbitration to arbitration by agreement only from 1st January 2006.

Further, the industry agreed to establish a working group, as soon as possible, to develop voluntary marketing arrangements with the objective of working towards a new system for marketing raw sugar prior to the scheduled review in 2006. With further decline in the world market price for sugar, a strengthening Australian dollar and with sugar excluded from the Free Trade Agreement with the USA, the federal coalition government has undertaken to review its original package for financial assistance for the industry. The industry (CANEGROWERS and Australian Sugar Milling Council) submitted a proposal which seeks assistance of \$600 million to support the implementation of a rationalisation and structural adjustment program consisting of:

1. Funds paid directly to individual producers for:
 - a) commitment to develop and comply with restructure plans in regions to attain sustainability, and
 - b) meeting milestones within regional rationalisation plans.
2. Funding to facilitate rationalisation through regional plans to enhance revenue and cost efficiency through the adoption of "whole-of system" solutions and to facilitate environmental and social sustainability across all industry sectors.
3. Cash support for development of new products, systems and structures at regional and industry levels.

While discussions between the industry and government are continuing, the Central Region Sugar Group, comprising miller and grower representatives from Proserpine to Sarina, are in the process of formulating a regional plan which is consistent with and complementary to the industry's submission to government.

Grower / Member Matters

At the Annual General Meeting on 30th May 2003 a continuation of the Productivity Grant and Loan Scheme was announced. 135 soil analyses were subsidised to the extent of \$4 725. Seventy-three members of the Co-operative took out interest-free loans amounting to \$822 148 with thirty-one members taking out the maximum loan available to them. The loans are to be repaid progressively from cane pays through the 2004 season. Members were advised by circular dated 5th December 2003 that the scheme has been extended for a further three years so that it is available for fertiliser, mill mud and dunder purchases in 2004, 2005 and 2006.

As at 29th February 2004, the unallocated pool of Cane Production Area (CPA) available to the Cane Production Board, within the 24 week season constraint, is 1 176 hectares. CANEGROWERS have not supported the release of CPA to growers generally, suggesting that there is ample unutilised CPA in the hands of growers for others to lease or purchase if they require CPA. It has been agreed however that an amount of 150 hectares of the unallocated pool be made available for existing growers who may wish to expand.

**Statement of Financial Performance
for the twelve months ended 29th February 2004**

	Note	2004 \$	2003 \$
OPERATING PROFIT/(LOSS) before surplus distribution, income tax and extraordinary items		(1,806,635)	4,649,761
SURPLUS DISTRIBUTION / DISTRIBUTION FROM RESERVES	3	(238,325)	(708,450)
OPERATING PROFIT/(LOSS) after surplus distribution / distribution from reserves, income tax and extraordinary items		<u>(2,044,960)</u>	<u>3,941,311</u>
RETAINED EARNINGS AT BEGINNING OF YEAR		<u>46,804,334</u>	<u>42,863,023</u>
RETAINED EARNINGS AT END OF FINANCIAL YEAR		<u>44,759,374</u>	<u>46,804,334</u>

FINANCIAL REPORTS

Statement of Financial Position as at the 29th February 2004

	2004 \$	2003 \$
CURRENT ASSETS		
Cash and deposits.....	22,731,888	17,130,062
Debtors and prepayments.....	14,683,180	21,088,624
Inventory – at cost.....	3,447,795	3,039,233
	<hr/>	<hr/>
Total current assets	40,862,863	41,257,919
	<hr/>	<hr/>
NON CURRENT ASSETS		
Investment – at cost.....		5,794,139
Property, plant and equipment.....		133,351,307
		<hr/>
Total non current assets		139,145,446
		<hr/>
TOTAL ASSETS		180,403,365
		<hr/>
CURRENT LIABILITIES		
Creditors and borrowings.....		41,301,942
Provisions.....		1,544,908
		<hr/>
Total current liabilities		42,846,850
		<hr/>
NON CURRENT LIABILITIES		
Creditors and borrowings.....	20,080,000	20,080,000
	<hr/>	<hr/>
Total non current liabilities	20,080,000	20,080,000
	<hr/>	<hr/>
TOTAL LIABILITIES	62,758,696	62,926,850
	<hr/>	<hr/>
NET ASSETS	115,333,067	117,476,515
	<hr/>	<hr/>
EQUITY		
Reserves		
Asset revaluation reserve.....	68,290,818	68,389,307
Capital profits reserve.....	582,512	582,512
Loan redemption reserve.....	1,700,363	1,700,363
Retained earnings.....	44,759,374	46,804,334
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TOTAL EQUITY	115,333,067	117,476,515
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**Statement of Cash Flows
for the twelve months ended 29th February 2004**

	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers.....	71,976,570	78,598,220
Payments to suppliers and employees	(67,799,797)	(70,666,446)
Interest received.....	1,113,996	547,915
Interest paid and borrowing costs	(3,152,448)	(2,766,873)
Net cash provided by operating activities	2,138,321	5,712,816
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(2,963,296)	(1,063,601)
Proceeds from sale of plant and equipment.....	8,182	13,091
Net cash used in investing activities	(2,955,114)	(1,050,510)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	7,068,512	2,664,821
Lease liabilities	(649,893)	(559,268)
Net cash used in financing activities	6,418,619	2,105,553
NET INCREASE /(DECREASE) IN CASH HELD	5,601,826	6,767,859
CASH AT THE BEGINNING OF THE REPORTING PERIOD	17,130,062	10,362,203
CASH AT THE END OF THE REPORTING PERIOD	22,731,888	17,130,062

FINANCIAL REPORTS

Notes to and forming part of the Accounts for the twelve months ended 29th February 2004

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

	2004	2003
	\$	\$
Sales Revenue	64,494,041	85,624,336
Interest	1,154,918	564,961
Profit/(loss) on disposal of non current asset	(923)	(13,047)
Other	668,024	338,810
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Total operating revenue	66,316,060	86,515,060

NOTE 3: Surplus Distributions / Distribution from Reserves

	2004	2003
	\$	\$
A fully franked distribution will be paid in accordance with the Association's 10-year surplus distribution rule.		
Gross Distribution	342,111	877,794
Imputation Tax Credit	(102,633)	(169,345)
Cash Distribution	239,478	708,449
Less prior year distribution adjustment	1,153	Nil
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Surplus distribution / Distribution from Reserves	238,325	708,450

Directors' Report

The Directors present their report and the financial statements of Proserpine Co-Operative Sugar Milling Association Limited for the 12 months ended 29th February 2004.

Directors

The name and profile of Directors in office for the 12 months ended 29th February 2004 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 1995 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 29th February 2004 follows.

Board Meeting Attendance				
Directors	Regular Meetings		Special Meetings	
	Held	Attended	Held	Attended
F W Dray	11	11	3	3
L J Raiteri	11	10	3	3
R W Biggs	11	11	3	3
I V Ivanoff	11	10	3	3
W A Lade	11	10	3	2
J D Mau	11	10	3	3
G Valmadre	11	11	3	3

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 29th February 2004, and the results of these operations, are included in the preceding sections of this report.

Operating Results

A significant reduction in the sugar price and an extremely dry year which impacted on cane production resulted in an operating loss after surplus distributions of \$2.04 million. The Cooperative was able to achieve a cash profit. The Cooperative was able to generate positive cash flow from operations of \$2.13 million with an overall increase of cash held of \$5.6 million

Events Subsequent to Balance Date

A further reduction in world sugar prices will impact on profitability which will be offset for the most part by an expected significant increase in throughput.

Future Developments

The Association is in the final phase of design of a 5,000 tonne Furfural plant using a new SupraYield process.

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 29th February 2004 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 7th day of April 2004.

Signed in accordance with a resolution of the Directors.



F W Dray
Director

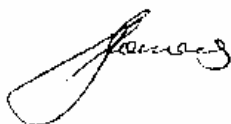


L J Raiteri
Director

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 29th February 2004, 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 29th February 2004, and of its results for the year ended on that date.

Dated at Proserpine this 7th day of April 2004.



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 29th February 2004, 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 29th February 2004 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 7th April 2004
Address 86 Main Street
Proserpine Qld 4800

Firm C E Smith & Co Proserpine
Chartered Accountants

Partner A V Carroll

Harvester Group Size and Equipment Statistics

Group Size (Tonnes)	No of Groups	Group % of crop	No. of Machines
> 100,000	2	15.6	4
90,000 – 100,000	4	20.9	4
80,000 – 90,000	4	19.3	4
70,000 – 80,000	1	4.3	2
60,000 – 70,000	3	11.0	3
50,000 – 60,000	5	15.2	5
20,000 - 50,000	7	12.6	9
<20,000	1	1.1	2
TOTALS	27	100	33

MILL OPERATION STATISTICS

Crushing Season	2003	2002	2001	2000	1999
Number of suppliers	263	266	278	276	256
Tonnes of cane crushed	1 782 358	1 924 056	1 445 175	1 389 676	1 956 155
Season length (weeks)	18.7	18.8	15.6	15.1	20.3
Crushing rate (tonnes per hour)	632	651	637	637	612
Average CCS in cane	14.10	14.74	15.06	12.79	13.48
Average fibre in cane (%)	13.85	13.93	13.97	12.15	14.32
Green cane % supplied (as consigned)	65	60	56	67	57
Total extraction at mills (%)	97.58	97.48	97.20	95.77	95.56
Molasses made (% of cane)	3.39	3.10	2.84	2.97	2.91
Sugar made (tonnes IPS)	259 197	292 430	222 770	179 844	268 682
Pool Index	1.0312	1.0319	1.0228	1.0139	1.0206
Cane per tonne IPS sugar	6.88	6.58	6.50	7.72	7.28
Cane per hectare – tonnes	76.5	81.0	64.9	60.1	87.4
Sugar per hectare – tonnes	11.12	12.32	9.99	7.78	12