QUEENSLAND SUGAR LIMITED

ANNUAL REPORT 2007 – 2008

QUEENSLAND SUGAR

Our Purpose

To optimise returns from the marketing of raw sugar.

Our Aims

- Deliver a high quality product and superior service to customers
- Provide value-added, cost-effective service and support to producers
- Build long term differentiated and regular export markets, based on a package of consistent high quality, reliable supply, technical advice and product support
- Provide timely and relevant sugar market information to the Queensland sugar industry
- Promote and enhance the long-term profitability of the Queensland sugar industry
- Encourage initiative, innovation and value-adding within the Queensland sugar industry
- Ensure responsible environmental management in our operations
- Provide a safe working environment for all staff.

Who we are

Queensland Sugar Limited is a public company limited by guarantee, incorporated under the Corporations Act 2001.

The company's 35 members represent the Queensland sugar industry and are:

- 10 mill owners
- 23 Grower Representative Members elected to represent various mill areas in Queensland
- Australian Cane Farmers Association
- CANEGROWERS.

We receive no government funding or subsidy and the cost of operations is deducted from the proceeds of raw sugar sales.

What we do

- Provide a raw sugar export marketing service that creates value for suppliers and customers
- Operate six bulk sugar terminals
- Manage sugar price and foreign exchange exposure
- Manage advances and payments to mill owners.

Queensland Sugar

North Podium, 192 Ann Street Brisbane, Queensland 4000 Australia

GPO Box 891, Brisbane, Queensland 4001 Australia

Telephone: 61 7 3004 4400 Facsimile: 61 7 3004 4499

Website: www.qldsugar.com

ABN 76 090 152 211

CHAIRMAN'S OVERVIEW

The 2007/08 season was the second in which QSL marketed raw sugar under raw sugar supply contracts with eight Queensland milling companies. Continuing the evolution of the industry's operating environment, this season QSL made its final deliveries to the domestic market (less than 100,000 tonnes) and thereafter turned its focus exclusively to raw sugar export marketing. QSL exported 3.05 million tonnes actual to 18 customers in nine countries.

During the year, the world sugar market returned to a surplus of production over consumption. World sugar prices moved lower in response to this change in market fundamentals and India's coincident decision to subsidise the export of its surplus raw sugar. In this lower and more volatile price environment, QSL achieved a price of $275.80 per tonne IPS for the Discretionary Pool. QSL continued to offer the supplier managed pricing system (SMPS) as an alternative mechanism to enable mill suppliers a means of directly managing their pricing activities.

As the second year of raw sugar supply agreements drew to a close, QSL and supplying milling companies commenced renegotiation on future agreements. The proposal is that QSL be retained by milling companies as their raw sugar export marketing company of choice under 3 year rolling agreements, from the commencement of the 2009 season. The certainty in raw sugar supply in the new agreements will provide QSL, working closely with suppliers, with an ability to further develop customer relationships, enter into long term contracts and to take advantage of opportunities in commodity and foreign exchange futures markets.

These new agreements will involve significant changes to the way QSL operates. The focus for the executive team for the last six months has been on negotiating and preparing for the changes the new agreements require. Major changes contemplated are:

- *greater supplier involvement in pricing discussions*
- *simplified pooling and reporting arrangements*
- *performance improvement targets formalised through an Operational Improvement Plan*
- *monitoring of QSL's financial exposure to individual suppliers.*

Securing the new supply agreements will be a key factor driving the continuing evolution of QSL. A restructuring of the board was agreed at an extraordinary general meeting held on 25 June with QSL's Members voting overwhelmingly in favour of the proposal. The current largely industry representational board will be replaced by a smaller commercially focussed board. The changes will help take QSL forward, preparing it for the future. As part of transitional arrangements the existing board continues until the new board is appointed. A selection committee has been appointed by members and the selection process is under way. New appointments are expected later this year.

QSL's sub-lease with Sugar Terminals Limited (STL) for the bulk sugar terminals continues beyond 30 June 2008 on a month to month basis as QSL and STL work to agree a basis for future arrangements. The challenge is to establish a lease charge which provides STL with the return on assets it is seeking for its shareholders while allowing QSL to be export competitive in its operations. The export component of the sub-lease rental paid to STL last year was, by far, QSL's largest non-recoverable cost. Of particular concern to QSL is the proposal by STL to operate the terminals going forward. QSL believes that operation of the terminals is essential to QSL's unique marketing philosophy of year round sales direct to refiners where QSL is responsible for quality and shipping logistics.

The collapse of the World Trade Organisation (WTO) Doha round negotiations in July means the opportunity to improve the world sugar trading environment will be delayed. Despite this disappointment, securing an improved world trading environment remains a high priority for the

Australian sugar industry. QSL will continue to work closely with, and on behalf of, the industry to secure improved market access through WTO processes and bilateral free trade agreements

Despite tightening global credit market conditions, the outlook for the world's raw sugar market is robust. Strong growth in Asian economies continues to drive growth in demand for sugar and the drive to alternative and renewable fuels is driving demand for ethanol. Increasing costs of production and the exchange rate strength of our major competitors is likely to underpin prices in the year ahead. I am confident that QSL will continue to deliver an edge in a rapidly changing market.

QSL's culture of excellence, fostered by the board, was lead throughout the company by Ian White, Managing Director and Chief Executive, who has left the company after eight years in this role. During his time with QSL, Ian oversaw many changes, guiding the company from a statutory to a fully commercial operation. Ian encouraged a strong customer and mill supplier focus across the business. I wish him well as he embarks on new challenges in Canada. I acknowledge and thank our talented staff for their tremendous efforts in a challenging year.

Due to the restructure of QSL, this will be the last reporting year under the existing Board structure. I would take this opportunity to thank my fellow directors for their foresight, dedication and commitment in managing the difficult transition from a statutory to a commercial environment.

Keith De Lacy AM
Chairman
22 September 2008

CHIEF EXECUTIVE'S REPORT

There was a sharp turnaround in world sugar market conditions in 2007/08, as a significant world production surplus emerged. This resulted in much lower prices being available for export raw sugar. Sugar was one of the commodities for which global growth in supply exceeded growth in demand, as many producers around the world responded to the previous high price environment. Nonetheless, the market outlook is bright as rapid growth in demand for ethanol absorbs an increasing quantity of sugarcane production and economic growth across Asia fuels increasing demand for sugar. In this new environment prices will continue to be volatile, providing opportunities for QSL and its suppliers.

Reflecting the smaller export volume to be marketed, QSL focussed on meeting the supply needs of a tight group of core customers in key markets. With returns diminished by the impact of Indian export subsidies and surplus sugar available, QSL worked closely with suppliers to meet customer needs in difficult circumstances. Like QSL, mill suppliers understand the importance of supplying a quality product on a reliable basis that meets customer expectations.

QSL recognises that the long term sustainability of the export supply base is dependent on strong returns to producers. As part of the export marketing package, QSL manages the impact of both marketing and production risk exposures on an integrated basis, offering the benefit of its financial position to all suppliers in a deteriorating credit environment. This underpins the certainty suppliers have in their price risk management activities using the pricing mechanisms offered by QSL. These enable suppliers to independently manage a significant part of their price risk exposure to reflect their individual cost structures and attitude to risk. The Long Term Target Pool provides individual suppliers with a mechanism to manage their price exposure three years forward. Many mill suppliers and, through them, their supplying growers are using this mechanism to begin actively managing their long term price exposure.

As outlined in the Chairman's report, access to the sugar terminals at a charge that makes it economic for QSL to operate terminals and deliver value through, year round, a customer focussed marketing package featuring integrated logistics and raw sugar quality management is essential to QSL's marketing operations. Reflecting its belief that the sugar terminals should be operated for the benefit of industry participants and ongoing concern over the structure of STL shareholding, QSL purchased a further 9.2 million "G" class shares in STL taking its total holding to 19.8 million (8.6% of "G" class shares).

The strength of raw sugar prices in an oversupplied world market underpins the value of ongoing efforts, on behalf of the industry, to achieve further gains on the international trade front. Although a new WTO agreement was not concluded, foundations have been prepared for an improved trading environment for sugar when negotiations recommence. QSL will continue to work closely with government and fellow members of the Global Sugar Alliance to bring this about. Bilaterally some gains have been made. Australia concluded an agreement with Chile that included sugar. India is likely to remove its export subsidies earlier than expected. This should produce a market benefit in 2008/09. Australia is engaging other important raw sugar trading partners in free trade agreement negotiations. These will be important for sugar as QSL continues to focus on ways to improve its terms of trade.

Key outcomes and performance features

- 2007/08 Discretionary Pool Price – $275.80 per IPS tonne
- Payment to Mill Owners – $887.8 million
- Tonnes marketed – 3.19 million tonnes actual of Queensland raw sugar
- 76% of 200/7/08 season payments made to producers by 31 December 2007
- Average borrowing rate achieved – 6.67%
- Direct selling expenses –increased by $19.98 million (17%) compared to 2006/07
- Bulk sugar terminal operating expenses, excluding rental expenses paid to STL, $21 million – increased by $568,000 (3%) compared to 2006/07
- Bulk sugar terminal sub-lease rental paid to STL, $50.37 million – increased by $986,000 (2%) compared to 2006/07
- Chartered 98 export ships
- Standard and Poors ratings – A1+ (short term) and AA- (long term)

Workplace health and safety and environmental management

QSL actively works to keep its people healthy and safe and to achieve strong environmental management and workplace health and safety outcomes. The first lost time injuries in 25 months occurred, including a serious incident at the Townsville BST resulting from the collapse of a sugar stockpile. QSL has reviewed its bulk sugar terminal operating procedures following these incidents as it works to ensure all of our people continue to have confidence in their safety.

QSL has continued the strong focus on environmental management. The company's environmental policies and procedures were followed and it is pleasing to report, during the year, there were no known breaches of the company's environmental licences.

Sugar market environment

Raw sugar prices were lower in 2007/08 than 2006/07. Reflecting the emerging global surplus and the impact of Indian export subsidies, raw sugar prices traded to a low of US 8.45 c/lb in the NY11 prompt contract and were below US 10.0 c/lb for much of 2007. Continued growth in consumption, a reduction in EU export subsidies and strong demand for ethanol together with a constructive outlook for biofuels kept prices from falling further. As the year progressed, the outlook for sugar production changed again and prices began to trade in a range of US 11.0 to 13.0 c/lb. Increasing demand for ethanol is resulting in a shift in production from sugar towards ethanol in Brazil. Elsewhere, high prices for other agricultural crops have encouraged some farmers to switch from sugar to those other crops. Looking forward, these factors combined with a cyclical downturn in Indian production are expected to support world raw sugar prices.

The benefit of the strengthening sugar prices was offset, in large part, by the strength of the Australian dollar's appreciation through the pricing period. The Australian dollar rose in value from AUD/USD 0.76 to more than AUD/USD 0.96 by the end of June 2008. While the Australian economy performed strongly during the period, weakness of the US dollar was an important factor in the strength of the Australian dollar's appreciation. The Brazilian currency also appreciated strongly during the period, preserving the relative competitiveness of exports from Australia and Brazil and helping to support the underlying level of the US dollar denominated world sugar price.

Operating performance

The sugar price traded in a US 6 c/lb range during the year with forward contracts on the NY11 often trading at a premium to nearby contracts. The AUD/USD exchange rate appreciated by 26% during the year. In this highly volatile market environment, QSL's progressive forward pricing strategy enabled it to capture some benefit from the price volatility present across the season. As a result QSL delivered a 2007/08 weighted average Discretionary Pool price of $275.80 per tonne IPS. A number of suppliers managed part of the price risk exposure for the sugar they supplied on their own account. Some also supplied sugar to the domestic market. Therefore, results for individual mills across Queensland may be very different from this weighted average Discretionary Pool price.

Operating costs at the bulk sugar terminals increased by 3%. STL has indicated its intention to take over the management and operation of the bulk sugar terminals from QSL. QSL is concerned that this proposal may lead to the separation of bulk sugar terminal operating decisions from the principal raw sugar marketing task. Despite the impact of the ongoing skills shortage, QSL has been able to retain high quality personnel to manage and operate the bulk sugar terminal facilities. These people are an important part of the industry’s supply chain and through their flexibility and positive attitude they have helped deliver value. We recognise their contribution and thank them for ensuring the ongoing efficiency and integrity of the storage and handling services QSL provides to the industry.

The 17% increase in direct selling expenses was largely driven by increased shipping expenses as freight rates and fuel costs rose. QSL loaded 98 (export) ships across six different ports, a total export task of 3.05 million tonnes actual. The increase in direct selling expenses was offset by increases in revenue from freight recovery as the higher freight rates were passed to customers in export sales contracts. QSL's flexible approach to freight fixing in this volatile environment again delivered additional value.

Meeting customer demand

Raw sugar import demand in the Asia-Pacific increased again in 2007/08. This growth is expected to continue as incomes throughout the region increase and diets change. In this environment, despite the strong growth in exports from Thailand and the competition from subsidised Indian exports, demand for Queensland export sugar continued to be strong. Nonetheless QSL's export mix changed as it worked to increase supply to the most remunerative markets. The deteriorating terms of trade for raw sugar with Japan, offset by the rapid growth in demand from Indonesia, was a factor driving change. QSL continues to work with its longstanding Japanese customers to explore opportunities to address structural issues in the logistics chain and with government for the full inclusion of sugar in the Australia-Japan free trade agreement as a means of improving the terms of sugar trade.

In the year ahead, QSL expects further change in the market. The expected downturn in Indian production and exports together with an expected reduction in South African exports to east Asia will affect regional supply dynamics and increase Asian demand for Queensland raw sugar. Physical values in Asia were strong in 2007/08 and, without a structural adjustment in freight rates, are expected to remain strong in 2008/09. QSL will continue its strong focus on meeting the supply needs of a tight group of customers in this natural supply region. The company’s fundamental value proposition is built on the understanding that value creation in the raw sugar business depends on more than price risk management. A solid physical supply system is as essential for QSL's customers’ business continuity as it is to enable the pricing mechanisms that support their suppliers’ price risk management activities in the raw sugar futures market.

In an increasingly price volatile environment QSL will continue to focus on operational performance and customer service as a platform for value creation in its export activities and to provide value adding opportunities for our suppliers’ price risk management activities.

Cash management

QSL continues to be responsive to suppliers’ cash flow needs. It is important that cash payments for raw sugar delivered are made as expeditiously as possible during the year. In a lower world price environment than 2006/07, QSL was able to provide cash flow to suppliers throughout the year reflective of sugar market conditions and the cash flows of its progressive sales program. The strength of QSL’s financial position delivered benefits as the impact of tightening credit conditions associated with the global credit squeeze did not impact on the company's ability to make raw sugar payments.

For 2008/09 season, improved sugar market conditions have enabled the payment of a higher initial advance than 2007/08.

Our people

QSL is fortunate to have an enthusiastic team of high performing people. QSL's ongoing performance is dependent on their commitment and dedication. Together, they have enabled the company to respond to changing market conditions and worked closely with customers and suppliers to meet their individual needs. I am confident these talented people will work with the changing environment to ensure that QSL continues to thrive for the benefit of suppliers by meeting the needs of customers.

Our underlying responsibility continues to be to operate QSL in a sound manner. Customer satisfaction, supplier value, employee welfare, environmental management and workplace health and safety remain the key corporate values underpinning all our operating and strategic decisions. As focussed as we are on the important task of value creation in a rapidly changing world, we will not lose sight of these fundamental values.

John Pollock
Chief Executive (Interim)
22 September 2008

DIRECTORS

Keith De Lacy AM HonDLitt DUniv BA QDA FAICD FAIM – Chairman – Appointed chairman on 5 July 2004

On June 6 2005 Keith was elected chairman of the Global Sugar Alliance for Sugar Trade Reform and Liberalisation. Keith is currently also chairman of Macarthur Coal, Trinity Group and Cubbie Group, and is a director of Reef Casino. He has extensive experience in business administration and corporate governance. He is vice president of the Queensland Division of the Australian Institute of Company Directors (AICD) and he is also a Fellow of the Australian Institute of Management (AIM). He has previously been awarded Honorary Doctorates from both James Cook and Central Queensland Universities, the University of Queensland Gatton Gold Medal, and a Centenary Medal. Keith was Treasurer of Queensland from 1989 to 1996.

Alf Cristaudo – Appointed 24 December 1999

Alf Cristaudo has extensive experience in the cane industry. He is Chairman of Queensland Canegrowers Organisation Limited, Australian Canegrowers Council, Canegrowers Financial Services Pty Ltd and Canegrowers Superannuation Pty Ltd. He is President of the World Association of Beet and Cane Growers and is a member of the Policy Council of the National Farmers' Federation. He is Chairman of Canegrowers Herbert River and co-chairman of the Herbert River Regional Industry Board as well as a board member of the CRC for Sugar Industry Innovation through Biotechnology.

Ian D Glasson B Eng (Hons) – Appointed 15 May 2006

Ian Glasson joined CSR as CEO of the Sugar Division in April 2006. Ian was previously Managing Director of Gresham Rabo Management Limited, a company formed as a joint venture in private equity by Rabobank and Gresham Partners, which specialised in Food and Agribusiness investments. Ian also spent 9 years with Goodman Fielder where he was most recently Managing Director of Goodman Fielder's global Food Ingredients business, headquartered in Philadelphia, USA. In Ian's career with Goodman Fielder he also served as General Manager of Leiner Davis Gelatin and was Group Manager Corporate Development responsible for the food group's M&A activity. Ian also has 18 years broad industry experience including a long career in the oil and gas industry with Esso Australia Ltd and its parent Exxon in the USA and has spent time in the building and construction sector with Kone Elevators.

Mark Hochen BBus FCPA FAIM FCIS MAICD – Appointed 25 October 2006

Mark Hochen is the General Manager of Isis Central Mill, a position he has held since 1993. His training and prior employment was in the finance and accounting area. He has significant experience in the Queensland sugar industry, being first employed at the Isis Central Mill in 1981. Mark is chairman of Sugar Research Limited and of Australian Sugar Milling Council Industrial Relations Committee. He is a director of Isis Productivity Limited and the Australian Sugar Milling Council.

Sarah A Israel BBus FCPA FAICD – Appointed 24 December 1999

Sarah Israel has wide experience in investment banking and regional development in both the private and public sectors. She is currently a director of CS Energy Ltd and Electricity Supply Industry Superannuation Fund (Qld) Ltd. Sarah is chair of the Audit Committees of Queensland Sugar Limited and ESI Super and a member of the Audit Committee of CS Energy Ltd. She has been a director of Australian Biodiesel Group Limited (ABG), Queensland Electricity Transmission Corporation, Export Finance and Insurance Corporation and Queensland Motorways Limited. Sarah has also been deputy chairman of the Building and Construction Industry (Portable Long Service Leave) Authority.

James R Kennedy B Comm Dip Ag Ec FAIM – Appointed 23 July 2001

Jim Kennedy has extensive experience in commodity trading, food product exports, strategic marketing and financial risk management. He is chairman of Craig Mostyn Ltd and is also a director of Food Science Australia (being chairman of its finance committee). He is a former member of the Trade Policy Advisory Council, and was the executive director of the Prime Minister's Supermarket to Asia Council. He was also previously managing director of Ricegrowers' Co-operative Limited and a number of its joint ventures and subsidiaries as well as more recently having been a director of Tandou Limited and Golden Circle Ltd and chairman of its Audit Committee. Jim was awarded a Centenary Medal for his contribution to the food industry.

Russell K McNee – Appointed 21 January 2003

Russ McNee is a cane farmer in the Burdekin area. He was chairman of the Burdekin Regional Advisory Group, appointed by Federal Government, which was established August 2004 through to 30 June 2008. He has more recently been a director of Queensland Canegrowers Organisation Limited (2005-2007 and previously from 1998-2001) and a director of Canegrowers Burdekin Limited (2005-2007; and chairman of Invicta Cane Growers Organisation Limited from 1998-2004). He has also retired from his positions with the Burdekin River Irrigation Area Committee (1994-2006) and Queensland Irrigators Council (1994-2006). He is a former Invicta Grower Representative member of Queensland Sugar.

Geoffrey E Mitchell AO – Appointed 28 July 2000

Geoff retired as non-executive chairman of Bundaberg Sugar Ltd in May 2008 and also recently retired from the Australian Sugar Milling Council, being the longest serving director, having been appointed on 5 January 1988. Geoff was a member of the Australian Government's Sugar Industry Oversight Group which was established under the Sugar Industry Reform Programme of 2004 to June 2008. He has also been a member of the Business Council of Australia and the Food and Agribusiness Advisory Board of Rabo Australian Limited and has held board positions in the sugar industries of China and Vietnam as director of Tate and Lyle Swire Limited and Nghe An Tate and Lyle Sugar Company Limited. He is a former director of STL.

Maryann Salvetti – Appointed 25 October 2006

Maryann has extensive primary industry, marketing and company director experience including over 29 years as a primary producer; partner and co-manager of an agricultural enterprise covering 190 hectares of sugar cane production as well as the production of grass seeds, legumes, peanuts, maize, wheat and sorghum. In addition she is co-managing director and marketing manager for North Queensland Tropical Seeds, a wholesale, processing and exporting company supplying seed to both the domestic and international markets. Maryann is currently chairperson of Tableland Sugar Services, a director and deputy chair of Tableland Canegrowers Limited, Tableland Contracting Services Pty Ltd, Tanita Pty Ltd and secretary/public officer of Tableland Sugar Pty Ltd. Maryann was a director of BSES Ltd and has been the recipient of many awards such as ABC Radio Far North Rural Woman of the Year, ABC Radio Queensland Rural Woman of the Year, Atherton Shire Australia Citizen of the Year, Bursary winner to attend 2nd International "Women in Agriculture" Conference – Washington DC and was awarded a Centenary Medal in 2001.

Paul A Schembri FAICD – Appointed 23 October 2003

Paul Schembri has more than 30 years of practical experience in sugar cane production and has been involved with representing growers for 25 years. A cane grower in the Farleigh area near Mackay, he was appointed to the board of the Queensland Cane Growers Organisation Limited in 1989. He is currently chairman of Mackay Canegrowers Limited and a vice chairman of Queensland Canegrowers Organisation Limited. Paul is a director of Canegrowers Financial Services Pty Ltd and a director of Canegrowers Superannuation Pty Ltd.

Charles E (Eddie) Westcott – Appointed 19 February 2003

Eddie Westcott was appointed chairman of Mackay Sugar Co-operative Association Limited in 2002 (previously deputy chairman since 1992) and is a director of Sugar Australia Pty Limited, New Zealand Sugar Company Limited, Australian Sugar Milling Council and the Mackay and Whitsunday Regional Economic Development Corporation.

COMPANY SECRETARY

David M Munro BA LLBD Couns FCIS

David Munro has over 35 years corporate, legal and corporate governance experience, including 15 years as company secretary and general counsel of MIM Holdings Limited. He also served as a director on numerous Australian and international companies associated with MIM. Currently, in addition to the role as company secretary of QSL, he is company secretary of BSES Limited and a corporate governance adviser to several other organisations.

DIRECTOR RESIGNATION

Ian White BEcon (Hons) CPA FAICD

Ian White was appointed as Managing Director & CEO of QSL on 17 April 2000. Ian resigned from QSL on the 20 March 2008 to take up a position as President and Chief Executive Officer of the Canadian Wheat Board. Ian has extensive experience at senior management level in the agricultural commodity sector both in Australia and North America. Prior to moving to Canada he was a director of the Cubbie Group and a member of the Queensland Competition Authority. He previously headed Queensland Cotton's Australian and US operations, was managing director and chief executive officer of Defiance Mills Limited, and was the chief executive of Grainco Limited. Ian was also a director of the World Sugar Research Organisation.

CORPORATE GOVERNANCE

Company's objects (as set out in the constitution)

The principal object of the company, without limiting its powers under the Corporations Act, is to promote the development of the sugar industry, assisted by the following objects:

(i) to enhance the efficiency and competitiveness of the Queensland sugar industry;
(ii) to provide access to markets for the Queensland sugar industry or the sugar industry elsewhere;
(iii) to enhance the long term economy of the Queensland sugar industry and the benefits flowing from it to Growers and Mill Owners;
(iv) to encourage initiative, innovation and value adding within the Queensland sugar industry or the sugar industry elsewhere and downstream processing of sugar;
(v) to provide timely and relevant sugar market information to Growers and Mill Owners;
(vi) to market raw sugar in the best interests of Growers and Mill Owners; and
(vii) to act commercially in the discharge of its functions.

In carrying out its objects, and without limiting its powers under the Corporations Act, the company will seek to pursue the matters provided in the Charter.

Company's charter (as set out in the constitution)

The company will seek to maximise the net returns in dollars per tonne of sugar to milling companies supplying it with sugar for export, and through such milling companies to their growers.

To achieve this the company will seek to:

- enter into rolling long term supply agreements to ensure continuing access to sugar for export;
- minimise supply chain costs through economies of scale, operational efficiency and without duplicated management functions;
- optimise the returns for export sugar to suppliers through the use of physical sales and derivative instruments;
- optimise the net regional premium achieved each season;
- provide flexible, innovative, transparent and/or independent pricing mechanisms for suppliers based on effective close out mechanisms for derivative instruments;
- ensure long term access (by lease or other arrangements), and manage and operate the bulk sugar terminals;
- operate in the forward freight market with a view to providing certainty of shipping availability for annual export programs and achieve preferential logistics arrangements and costs; and
- foster export market relationships with refinery buyers and the international trade.

The role of the board

The Queensland Sugar Limited board is responsible for setting the company's strategic direction and monitoring senior management performance.

The board’s functions include:

- promoting the good health of the company by embracing appropriate issues of good corporate governance
- setting the organisation’s strategic direction and goals
- reviewing and approving policies, plans, performance targets and budgets
- assessing Queensland Sugar’s ongoing performance and strategies and monitoring both the suitability of strategies and the performance of management
- over-viewing the establishment of, and adherence to, appropriate systems to:
  - enable the company’s business and financial risks to be managed
  - enable the company’s assets to be safeguarded
  - enable business to be conducted in compliance with laws and regulations
  - meet ethical and corporate governance standards.

Directors receive monthly reports from the chief executive and senior management on the company's marketing, operational, financial, and financial risk management performance and these reports are discussed at the monthly board meetings. The board also reviews sugar consumption and sugar production patterns, and governments’ involvement around the world, to identify strategies to optimise returns to its suppliers. Meeting agendas are set by the chairman and chief executive.

New directors receive comprehensive briefings from management on all areas of the company’s activities.

Composition of the board

The Company's constitution was amended by members on 25 June 2008 and provides for a Board Selection Committee whose role is to appoint up to a maximum of four independent directors. The Board Selection Committee has been constituted under the processes of the amended constitution and has four members - two members elected by mill owner members (Messrs ID Glasson and E Westcott) and two members elected by grower representative members (Messrs AF Cristaudo and IJ Ballantyne). The Board Selection Committee, assisted by a reputable executive search firm, is currently considering prospective candidates for the role of independent directors. The Board Selection Committee may appoint up to a maximum of four Independent Directors, but initially a minimum of three persons must be appointed. Grower directors and mill owner directors will only be appointed by the relevant class if a majority of the members of that class decide to do so.

The Board Selection Committee in making appointments has to have regard to the mix of skills required for the board to properly meet the company’s objects (set out above), and carry out the Charter (also set out above), including without limitation experience in the fields of corporate governance and company board processes; export marketing and sales; financial and derivatives markets; legal, finance, and accounting; and export logistics. Under the constitution, the Board Selection Committee may select the chair of directors and may decide the period for which that director is to hold office as chair. If the Board Selection Committee does not elect a chair of directors, the directors are to do so.

There are transitional provisions in the amendments to the constitution that the existing directors continue until the new board is appointed. Prior to amendments to the constitution, (and reflecting a governance structure in place since its formation in 2000), the company has had a 12 member board, consisting of the managing director, four grower directors selected to represent growers, four mill owner directors selected to represent mill owner members, and three independent directors selected by the eight industry directors, who were required to have specific expertise in commodity marketing, finance, vesting, law or business administration and be independent of sugar industry representative bodies.

Non-executive directors act as independent advisers to the company, rather than representing their own interests or those of their organisations. If a potential conflict of interest does arise, the director concerned does not receive the relevant board papers and leaves the meeting room while the matter is discussed.

Remuneration of directors

The constitution requires that the aggregate fees to be paid to non-executive directors be set by the company in general meeting. The initial aggregate fees were agreed with the sugar industry representative bodies, based on remuneration previously determined by the Queensland Government for the Queensland Sugar Corporation, and were subsequently confirmed at the company's 2001 annual general meeting. Directors are reimbursed travel and related expenses incurred in the course of carrying out their duties. Non-executive directors do not receive retirement benefits other than amounts set by the compulsory superannuation levy required under the Superannuation Guarantee Act.

Board committees

To assist in carrying out its functions, the board has established a Finance, Audit and Compliance Committee. The committee has a formal terms of reference approved by the board.

The current members of the committee are Ms SAD Israel (committee chair), and Messrs AF Cristaudo, ID Glasson and KE De Lacy (company chairman). The chief executive, the general manager – finance and corporate services, and representatives of the external and internal auditors attend by invitation. The committee's role is to assist the Board in maintaining an effective and efficient audit function. and in reviewing systems and controls in place for financial reporting, risk management, and compliance with company policies and with laws and regulations that apply to the company's activities.

Specific responsibilities include advising the board on the appointment and remuneration of external auditors and reviewing, in consultation with management and the auditors, the audit plans and reporting and recommendations of both external and internal audits and actions proposed arising from them. The committee is a direct link for providing the views of internal and external auditors to the board, if necessary, independently of management influence. The committee also monitors and advises the board in relation to all matters necessary to ensure the company adopts and follows sound principles of corporate governance.

Directors established a Board Administration Committee in 2003 for the limited purpose of authorising the execution of a document under the common seal of the company, or otherwise on behalf of the company, where the document brings into effect or implements a decision already taken by the board, or acknowledges a matter agreed at a board meeting; or where the subject matter of the document falls within the scope of the Financial Delegations and Authorities policy and has been approved within the scope of that policy. The committee has a formal terms of reference approved by the board. A committee consists of any two directors, one of whom must be either the chairman of the company or the managing director.

During the reporting period, there were several committees set up to consider and recommend actions on constitution review, management remuneration and future relationships with STL. Details of membership of each of these Committees are set out on page 15.

Managing risk

Monitoring and reviewing financial risk is a key function of the board, and approved principles and policies are in place to manage sugar price and foreign exchange risk. The board regularly reviews these policies. Speculative transactions are not permitted. Hedging is only permitted under the policies to manage risks associated with the sugar pool prices schemes. In its commitment to managing its exposure to significant business risk, Queensland Sugar Limited also has policies for:

- customer and trade credit
- liquidity risk management
- credit risk – financial institutions
- environmental management and compliance
- crisis management
- compliance with trade practices law
- workplace health and safety
- equal opportunity and anti-discrimination
- privacy
- corporate risk management.

Business conduct

The board has adopted a Code of Ethics requiring directors, management, employees, agents and brokers to act with integrity and objectivity, and maintain high standards and ethical behaviour in the execution of their duties.

Under the code, all those associated with Queensland Sugar Limited must act in accordance with the fundamental principles of integrity, objectivity, confidentiality, ethical behaviour, professional standards and consultation.

Independent advice

Queensland Sugar Limited recognises that there may be occasions when the board as a whole, or directors as a group or as individuals, believe it to be in their interests and in the interests of the company to seek independent professional advice on matters such as accounting, taxation or law, at the company's expense. Requests for the provision of such advice are to be directed to the chairman or the company secretary.

DIRECTORS' REPORT

In conformity with the *Corporations Act 2001*, your directors present this report on the company for the financial year ended 30 June 2008 (the reporting period).

Review of operations and results

The operations of the company during the reporting period and the results of those operations are reviewed in detail on pages 1 to 6 of this annual report and these pages form part of this report.

Change in state of affairs

The state of affairs of the company and significant changes thereto are set out on pages 1 to 6 of this annual report. Other than these matters, there was no significant change in the company's state of affairs during the reporting period.

Principal activities

The company's principal activities are the marketing of sugar and the provision of ancillary services in transport and management of financial risk in connection with such marketing. There have been no significant changes in the nature of those activities during the year. During the 2005/2006 financial year, the statutory provisions of the Sugar Industry Act 1999 as amended that vested sugar on manufacture in Queensland ended. Since the end of these statutory provisions, the company has entered into purchase and agency agreements with eight Queensland milling companies to continue these marketing activities on behalf of those suppliers. As set out on page 1, the purchase agreements and the services offered under them are being further negotiated.

Events after end of reporting period

Other than the restructuring of the board and other items reported on pages 1 to 6 of the annual report, no matter or circumstance has arisen since the end of the reporting period that has significantly affected or may significantly affect:

- the company's operations in future financial years;
- the results of those operations in future financial years; or
- the company's state of affairs in future financial years.

Likely developments

Likely developments in the company's operations in future financial years and the expected results of those operations are referred to on pages 1 to 6 of this annual report.

Environmental performance

The company's operations are subject to significant environmental regulation under Commonwealth and Queensland law, particularly with regard to air, noise, water, waste management and site contamination at its bulk sugar terminal operations.

The company has established procedures to monitor and manage compliance with existing environmental regulations and new regulations as they come into force.

Directors are not aware of any significant breaches of environmental regulation during the reporting period.

Information relating to directors

The following table shows the persons who were directors during the reporting period and the attendance of directors at meetings of the board. There were 16 board meetings during the reporting period.

KE De Lacy	16	M Hochen	14	MA Salvetti	16
AF Cristaudo	16	JR Kennedy	12	PA Schembri	14
SAD Israel	14	RK McNee	15	E Westcott	12
ID Glasson	14	GE Mitchell	15	IH White	11[1]

([1] attended the eleven meetings held prior to resignation on 24 March 2008)

The Finance Audit and Compliance Committee met five times during the reporting period. Committee chair Ms SAD Israel and Mr AF Cristaudo attended all meetings. Messrs KE De Lacy and ID Glasson attended four meetings, with Mr GE Mitchell attending one meeting as alternate for Mr ID Glasson. Messrs RK McNee and PA Schembri each attended one meeting as an observer.

No Board Administration Committee was required during the reporting period. A committee consisting of Messrs KE De Lacy, AF Cristaudo, ID Glasson, M Hochen, PA Schembri and IH White was formed to make recommendations to the Board on the selection, composition and size of the Board as part of constitution amendments put to members during the reporting period. Earlier in the reporting period this committee also oversaw the implementation of the Board's decision to acquire a certain number of "G" class shares in STL and otherwise reviewed future relationships with STL and made recommendations to the Board where appropriate. This Committee met on four occasions during the reporting period, with all members present for these meetings, other than Mr M Hochen who was absent for one meeting and Mr IH White who attended the three meetings held prior to his resignation. A remuneration committee consisting of Messrs KE De Lacy, M Hochen, Ms SAD Israel and Mrs MA Salvetti met on two occasions during the reporting period. Ms SAD Israel and Mr M Hochen were absent for one meeting.

Particulars of the qualifications and experience of each director of the company and the company secretary are set out on pages 7 to 9.

Indemnities and insurance premiums

The constitution provides that the company, to the extent permitted by law, must indemnify each person who is, or has been, a director or secretary of the company against any liability (resulting directly or indirectly from facts or circumstances relating to the person serving in that capacity in relation to the company):

- to any person (other than the company) which does not arise out of conduct involving the lack of good faith or conduct known to the person to be wrongful;
- for costs and expenses incurred by the person in defending proceedings, whether civil or criminal, in which judgement is given in favour of the person or in which the person is acquitted, or in connection with any application in relation to such proceedings in which the court grants relief to the person under the Corporations Law.
- The constitution also provides that the board of directors may authorise the company to, and the company may, enter into any insurance policy for the benefit of any person who is, or has been, a director, secretary, auditor, employee or other officer of the company. The obligation of the company to indemnify persons as set out in the preceding paragraph is reduced to the extent that a person is entitled to an indemnity in respect of that liability under a contract of insurance.

- The company has paid, or has agreed to pay, premiums in respect of contracts insuring against liability, the following persons, being persons who are or have been officers of the company: namely, any past, present or future director or officer of the company. The contracts prohibit disclosure of the extent of the cover and the amounts of the premium.

ERNST & YOUNG

1 Eagle Street
Brisbane Qld 4000 Australia
GPO Box 7878 Brisbane 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Auditor's Independence Declaration to the Directors of Queensland Sugar Limited

In relation to our audit of the financial report of Queensland Sugar Limited for the year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
22 September 2008

Rounding

Unless otherwise shown in this annual report, amounts have been rounded to the nearest thousand dollars. Queensland Sugar Limited is a company of a kind referred in the Australian Securities Investments Commission Class Order 98/0100.

This report is signed for and on behalf of the directors in accordance with a resolution of the board of directors.

KE De Lacy AM
Chairman
22 September 2008

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	**2008** **$'000**	2007 $'000
REVENUES FROM CONTINUING ACTIVITIES			
Sales of raw sugar	3	**1,093,522**	1,765,466
Interest	3	**1,050**	1,284
Net foreign currency exchange gain	3	**243**	3,002
Dividend income	3	**1,081**	–
Other revenues	3	**565**	207
		1,096,461	1,769,959
EXPENSES FROM CONTINUING ACTIVITIES			
Depreciation expense	4	**1,260**	1,880
Borrowing costs expense	4	**3,172**	10,977
Salaries and employee benefits expense		**13,511**	13,011
Operating lease rental	4	**50,986**	50,004
Payments to mill owners		**887,814**	1,566,492
Freight and brokerage	4	**135,325**	113,969
Other expenses	5	**4,507**	11,389
		1,096,575	1,767,722
NET (DEFICIT)/SURPLUS ATTRIBUTABLE TO MEMBERS OF QUEENSLAND SUGAR LIMITED		**(114)**	2,237

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2008

	Note	2008 $'000	2007 $'000
Current Assets			
Cash and cash equivalents		**221**	22,340
Trade and other receivables	6	**26,965**	71,854
Inventories	7	**85,568**	12,105
Other Assets	8	**29,948**	23,035
TOTAL CURRENT ASSETS		**142,702**	129,334
Non-Current Assets			
Property, plant and equipment	10	**10,228**	9,235
Available-for-sale-financial assets	9	**15,733**	1,101
Other Assets	8	**38,786**	3,216
TOTAL NON-CURRENT ASSETS		**64,747**	13,552
TOTAL ASSETS		**207,449**	142,886
Current Liabilities			
Trade and other payables	11	**109,370**	94,198
Interest bearing liabilities	12	**19,666**	4,606
Provisions	14	**1,320**	1,370
TOTAL CURRENT LIABILITIES		**130,356**	100,174
Non-Current Liabilities			
Trade and other payables	13	**41,638**	8,353
Provisions	14	**2,068**	1,967
TOTAL NON-CURRENT LIABILITIES		**43,706**	10,320
TOTAL LIABILITIES		**174,062**	110,494
NET ASSETS		**33,387**	32,392
Equity			
Reserves		**25,421**	24,312
Retained surpluses		**7,966**	8,080
TOTAL EQUITY		**33,387**	32,392

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2008

	Retained Earnings $'000	Capital Reserve $'000	Other Reserves: Available-for-sale Investment $'000	Other Reserves: Foreign Currency Translation $'000	Total Equity $'000
Balance at 1 July 2006	5,843	23,242	536	12	29,633
Net fair value gains on available-for-sale financial assets	–	–	644	–	644
Foreign currency translation	–	–	–	(122)	(122)
Net surplus for the period	2,237	–	–	–	2,237
Total income/expense for the period	2,237	–	644	(122)	2,759
Balance at 30 June 2007	8,080	23,242	1,180	(110)	32,392
Balance at 1 July 2007	8,080	23,242	1,180	(110)	32,392
Net fair value gains on available-for-sale financial assets	–	–	1,226	–	1,226
Foreign currency translation	–	–	–	(117)	(117)
Net deficit for the period	(114)	–	–	–	(114)
Total income/expense for the period	(114)	–	1,226	(117)	995
Balance at 30 June 2008	7,966	23,242	2,406	(227)	33,387

The above Statement of Changes in Equity should be read in conjunction with the attached notes.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)		**1,068,183**	1,737,476
Payments to suppliers and employees (inclusive of GST)		**(164,771)**	(200,345)
Payments to Queensland mill owners (inclusive of GST)		**(1,075,389)**	(1,768,277)
Goods and Services Tax recovered – Australian Taxation Office		**102,558**	134,083
Interest received		**1,050**	1,284
Interest and other cost of finance paid		**(3,008)**	(10,786)
Other receipts		**48,781**	182,746
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	15 (a)	**(22,596)**	76,181
Cash Flows from Investing Activities			
Purchase of available-for-sale-financial assets		**(13,311)**	(1,005)
Purchase of plant and equipment		**(2,446)**	(685)
Proceeds from sale of plant and equipment		**188**	119
Dividend received		**1,081**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(14,488)**	(1,571)
Net (decrease)/increase in cash and cash equivalents		**(37,084)**	74,610
Cash and cash equivalents at beginning of year		**17,734**	(56,423)
Effects of exchange rate changes on the balances of cash held in foreign currencies		**(95)**	(453)
Cash and cash equivalents at end of year	15 (b)	**(19,445)**	17,734

Note 1 – Corporate information

The financial report of Queensland Sugar Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 22 September 2008.

Queensland Sugar Limited is a company limited by guarantee incorporated in Australia. The company's principal activity is the sale of raw sugar for export. The operations of the company include the management of the six Bulk Sugar Terminals located in Queensland as well as the marketing of raw sugar for export to an existing and mature customer base.

The registered office of Queensland Sugar Limited is located at Mincom Building, 192 Ann Street, Brisbane, Queensland.

Note 2 – Summary of Significant Accounting Policies

To assist in the general understanding of these accounts, Queensland Sugar Limited's principal accounting policies are detailed below.

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has also been prepared on a historical cost convention, except for inventory, derivative financial instruments and available-for-sale investments, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and unless otherwise shown in the financial report, amounts have been rounded to the nearest thousand dollars and are shown by $'000. The company is a company of the kind referred to in the Australian Securities and Investment Commission Class Order 98/100.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board, which include Australian equivalents to International Financial Reporting Standards (AIFRS) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The company has adopted AASB 7 *Financial Instruments; Disclosures* and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure of these financial statements. There has been no effect on profit and loss or the financial position of the company.

Except for the amendments arising from AASB 2007-4: *Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments*, which the company has early adopted, Australian Accounting Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the company for the annual reporting period ending 30 June 2008. These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company
AASB Int. 12 and AASB 2007-2	Service Concession Arrangements and consequential amendments to other Australian Accounting Standards	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Unless the company enters into service concession arrangements or public-private-partnerships (PPP), the amendments are not expected to have any impact on the company's financial report.	1 July 2008

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(b) Statement of compliance (Cont'd)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company
AASB Int. 4 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 129	Service Concession Arrangements: Disclosures	Requires disclosure of provisions or significant features necessary to assist in assessing the amount, timing and certainty of future cash flows and the nature and extent of the various rights and obligations involved. These disclosures apply to both grantors and operators.	1 January 2008	Refer to AASB Int. 12 and AASB 2007-2 above.	1 July 2008
AASB Int. 14	AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The company has a defined benefit pension plan and as such this interpretation may have an impact on the company's financial report. However, the company has not yet determined the extent of the impact, if any.	1 July 2008
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the company's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The company has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(b) Statement of compliance (Cont'd)

Reference	Title	Summary	Application date of standard	Impact on company financial report	Application date for company
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009.	The company has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

(c) Sales of raw sugar/revenue recognition

Sales to export and domestic customers are made on commercial terms with settlement generally on a cash against documents basis or by letter of credit and predominantly in US dollars. Sales are recognised when the bill of lading is signed by the ship's master and it is probable that the economic benefits will flow to the company and can be reliably measured. Sales revenue also includes transactions relating to foreign exchange, sugar futures and options operations and is net of rebates, discounts and allowances.

(d) Futures and options market hedging

Transactions in sugar futures and options are carried out as part of the range of pricing mechanisms for physical sales of sugar. The results of such transactions are linked with the appropriate sugar sales contracts and are thus included in sales income. At balance sheet date, those relating to future periods are accounted for as derivatives (see (f) below).

(e) Foreign currency translation

The US dollar is the principal currency in which sugar is traded. The financial statements are presented in Australian dollars, which is the company's functional and presentation currency.

Transactions denominated in foreign currencies are initially recorded in the functional currency at the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of foreign currency denominated monetary assets and liabilities using rates applicable at balance sheet date are recognised in the Income Statement.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance sheet date.

(f) Derivatives

Derivative instruments are used by the company to manage commodity and foreign currency exposures connected with the sale of each season's raw sugar production. The company does not trade in derivatives. In accordance with the company's Financial Risk Management Policy, derivatives are entered into to manage defined sugar price and currency exposures. These exposures relate to known or anticipated sales of raw sugar.

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(f) Derivatives (Cont'd)

Derivatives are stated at fair value with any gains or losses arising from changes in fair value taken directly to the Income Statement.

Forward foreign currency contracts terms do not exceed three years. Sugar futures and option contracts are entered into with terms not greater than two years. Details of open contracts at balance sheet date are provided in Note 25.

Amounts receivable or payable at balance sheet date relating to future pool's production under sugar futures and options and foreign currency transactions are recognised as amounts owing to or amounts owing from future pools, and are included in the Balance Sheet on a net basis with gains or losses arising from changes in the value of amounts owing to or amounts owing from future pools are taken directly to the Income Statement. (Refer to Notes 11 and 13).

(g) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash includes cash on hand and in banks, money market, securities and funding swaps connected with the pooling and sale of raw sugar net of interest bearing liabilities.

Cash and cash equivalents are stated at the lower of cost and net realisable value. Interest is recognised as an expense as it accrues.

(h) Trade and other receivables

Trade receivables, which are generally settled against documents when each vessel is loaded, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off as incurred.

(i) Inventories

Materials and general store items used for maintenance at bulk sugar terminals are expensed in the year in which they are incurred.

Raw sugar stock on hand at balance sheet date has been valued at the lower of cost and net realisable value. The cost of stocks on hand in respect of each season's production has been determined as the respective weighted average of payment scheme prices payable to mill owners as calculated in accordance with supply contracts with mill owners.

In respect of the following season's stock on hand where the final pool price has not been established, the cost has been determined on the basis of the weighted average of forecast pool prices at balance sheet date. Where sales of the following season's production are made prior to balance sheet date, those stocks are valued on the basis of the net proceeds expected to be received from those shipments.

Raw sugar on hand comprised stock on hand at bulk sugar terminals at balance sheet date. Sugar stocks are recognised when sugar is received and property to the sugar passes to the company. This varies from the previous financial year balance sheet date where title passed to the company on production and included stocks in mill bins and in transit between mills and bulk sugar terminals. In relation to the determination of pool prices each season, any raw sugar on hand at balance sheet date was valued in the realisation and distribution account as follows:

(i) sugar unshipped and priced - valued at net realisable value and converted to Australian dollars at the exchange rate ruling at balance sheet date; and

(ii) sugar unshipped and unpriced - valued at balance sheet date on the basis of the New York Board of Trade (NYBOT) No 11 or No 14 futures settlement price for the quoted positions or market day average prices, in respect to specific contracts of sale and converted to Australian dollars at the exchange rate ruling at balance sheet date.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(j) Current assets

Current assets comprise: cash at banks and on hand, term deposits, debtors, prepayments, raw sugar stock on hand, amounts owing from future pools, unrealised gains on foreign currency transactions and unrealised gains on sugar futures and options contracts.

(k) Property plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such costs include the costs of replacing parts that are eligible for the capitalisation when the cost of replacing the part is incurred.

(i) Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than freehold and leasehold land over the estimated useful life of the assets as follows:

	2008	2007
Freehold buildings	**50 years**	50 years
Leasehold improvements	**the lease term**	the lease term
Plant and equipment	**4 to 25 years**	4 to 25 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

(ii) Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance sheet date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, as a not for profit company, fair value is depreciated replacement cost.

As the company's assets do not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which it belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the Income Statement in the cost of sales line item.

(iii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the year the asset was derecognised.

Freehold buildings are valued at the cost to the company at the time of purchase.

(l) Impairment of assets

The company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from the other assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of the asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(l) Impairment of assets (Cont'd)

In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at the revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in the prior years. Such reversal is recognised in the Income Statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Other non-current assets

Research and development and marketing costs

Research and development and marketing costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs.

Expenditure carried forward

Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

(n) Leased assets

Finance Leases

During the financial year ended 30 June 2008, the company was not involved in any finance leases.

Operating Leases

Operating leases are those where the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased property. Lease payments of this type are not capitalised and rental payments are expensed each year as incurred. Disclosure of these lease commitments is made in Note 16.

(o) Current liabilities

Current liabilities comprise all amounts owing at balance sheet date and payable within 12 months, including amounts due to Queensland mill owners.

(p) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid and arise when the company becomes obliged to make future payments in respect of the purchase of those goods and services.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the Income Statement when the liabilities are derecognised.

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(r) Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in provision due to the passage of time is recognised in finance costs.

(s) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liability for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of balance sheet date are recognised in other payables in respect of employees' services up to the balance sheet date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided by employees up to the balance sheet date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience in employee departures, and periods of service. Expected future payments are discounted using market yields at balance sheet date on national government bonds with terms to maturity that match as closely as possible the estimated future cash outflows.

(t) Post-employment benefits

The company contributes to one defined benefit plan on behalf of its employees.

In respect of the company's defined benefits superannuation plans, any contributions made to the superannuation plans by the company are recognised against profits when due.

Employees of the company who have defined benefit plans are members of QSuper.

For employees who are members of QSuper, the Treasurer of Queensland, based on advice received from the State Actuary, determines employer contributions for superannuation expenses.

No liability is recognised for accruing superannuation benefits in these financial statements, the liability being held on a whole-of-Government basis and reported in the whole of Government financial report prepared pursuant to AAS 31 - Financial Reporting by Governments.

(u) Nature and purpose of reserves

(i) Capital reserve

The capital reserve represents the value of equity transferred from Queensland Sugar Corporation in 2000, which was deducted from pool proceeds to fund purchases of property, plant and equipment.

(ii) Available-for-sale investment revaluation reserve

Changes in the fair value of equity investments, classified as available-for-sale financial assets, are taken to the available-for-sale investment revaluation reserve. Amounts are recognised in the Income Statement when the associated assets are sold or impaired.

(iii) Foreign currency translation reserve

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange variations resulting from the translation are recognised in the Foreign Currency Translation Reserve in equity.

Note 2 – Summary of Significant Accounting Policies (Cont'd)

(v) Income tax

In accordance with Sections 50-1 and 50-40 of the Income Tax Assessment Act 1997, the company is exempt from income tax.

(w) Deferred income and expenses

Income and expenses have been carried forward only in circumstances relating to future sales proceeds, the receipt of which is reasonably assured.

(x) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except:

(i) Where the amount of GST incurred is not recoverable from the Australian Taxation Office, it is recognised as part of the cost of the acquisition of an asset or as a part of the item of expense; or

(ii) For receivables or payables, which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the Australian Taxation Office is shown under current receivables or payables.

(y) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(z) Make good provision

Provision has been made for the present value of anticipated costs of future restoration of leased office premises. The provision includes future cost estimates associated with office dismantling. The calculation of this provision requires assumptions such as the applicable environmental legislation and engineering cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is reviewed annually and updated based on the facts and circumstances available at the time. Changes to the estimated future costs are recognised in the balance sheet by adjusting both the asset or expense (if applicable) and provision. The related carrying amounts are disclosed in note 14.

		2008 $'000	2007 $'000
NOTE 3	**Revenue from Continuing Activities**		
	Revenues from operating activities		
	Revenues from the sale of bulk raw sugar	**1,093,522**	1,765,466
	Net foreign currency exchange gain	**243**	3,002
	Total revenues from operating activities	**1,093,765**	1,768,468
	Fair value gains and losses in relation to derivatives and amounts owing to/ from future pools are offset in the Income Statement with a net income impact of $Nil. (Refer Note 11 and 13)		
	Revenue from non-operating activities		
	Interest – securities and short term deposits		
	Other persons/corporations	**1,050**	1,284
	Total interest	**1,050**	1,284
	Dividend income	**1,081**	–
	Proceeds from sale of non-current assets	**188**	128
	Other Income	**377**	79
	Total revenues from non-operating activities	**2,696**	1,491
	Total revenues from continuing activities	**1,096,461**	1,769,959
NOTE 4	**Expenses from Continuing Activities**		
	Depreciation expense		
	Plant and equipment	**1,125**	1,716
	Buildings on freehold land	**58**	87
	Leasehold improvements	**77**	77
	Total depreciation expense	**1,260**	1,880
	Borrowing costs expense		
	Interest expense		
	Short term debt	**3,007**	10,782
	Other	**165**	195
	Total borrowing costs expense	**3,172**	10,977
	Operating lease rental		
	Minimum lease payments		
	Sugar Terminals Limited	**50,367**	49,381
	Other property	**619**	623
	Total operating lease rental	**50,986**	50,004
	Freight and brokerage		
	Sea freight	**134,546**	112,020
	Road freight	**122**	756
	Selling brokerage	**657**	1,193
	Total freight and brokerage	**135,325**	113,969

NOTE 5 **Other Expenses from Continuing Activities**

This amount includes all other operating expenditure not separately identified in the Income Statement, less the recovery of $13.288 million in Storage and Handing costs for raw sugar not purchased from milling companies for sale by Queensland Sugar (2007: $6.30 million).

		2008 $'000	2007 $'000
NOTE 6	**Trade and Other Receivables**		
	Current		
	Trade debtors (a)	**5,587**	46,778
	Other debtors		
	Futures margins and deposits	**5,539**	6,978
	Goods and Services Tax receivable	**4,857**	12,033
	Other	**10,982**	6,065
		21,378	25,076
	Total trade and other receivables (current)	**26,965**	71,854

(a) Contractual terms and conditions, any collateral held and the timing of the payments are set out in Note 25.

		2008 $'000	2007 $'000
NOTE 7	**Inventories**		
	Bulk raw sugar at cost	**85,568**	12,105
	Total inventories	**85,568**	12,105
NOTE 8	**Other Assets**		
	Current		
	Unrealised gains on foreign currency contracts	**29,752**	20,840
	Unrealised gains on sugar futures and option contracts	–	1,965
		29,752	22,805
	Deferred expenditure and prepayments relating to a future period:		
	Prepaid expenditure	**196**	230
		196	230
	Total other assets (current)	**29,948**	23,035
	Non-Current		
	Unrealised gains on foreign currency contracts	**38,786**	1,413
	Unrealised gains on sugar futures and option contracts	–	1,803
	Total other assets (non-current)	**38,786**	3,216
NOTE 9	**Non-Current Assets – Available-for-sale financial assets**		
	At fair value		
	Shares – listed	**15,733**	1,101

Available-for-sale investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

The fair value of listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

		2008	2007
		$'000	$'000
NOTE 10	**Property, Plant and Equipment**		
	Freehold land:		
	At cost	**1,194**	1,194
	Leasehold land:		
	At cost	**195**	195
	Leasehold improvements:		
	At cost	**1,572**	1,572
	Accumulated depreciation	**(679)**	(601)
		894	971
	Buildings on freehold land:		
	At cost	**1,233**	1,155
	Accumulated depreciation	**(451)**	(422)
		782	733
	Plant and equipment:		
	At cost	**18,118**	17,089
	Accumulated depreciation	**(10,955)**	(10,947)
		7,163	6,142
	Total property, plant and equipment	**10,228**	9,235
	Reconciliations		
	Reconciliations of the carrying amounts of freehold land, leasehold land, leasehold improvements, buildings on freehold land and plant and equipment at the beginning and end of the financial year.		
	Freehold land		
	Carrying amount at the beginning	**1,194**	1,194
	Additions	**–**	–
		1,194	1,194
	Leasehold land		
	Carrying amount at the beginning	**195**	195
	Additions	**–**	–
		195	195
	Leasehold improvements		
	Carrying amount at the beginning	**971**	1,048
	Additions	**–**	–
	Depreciation Expense	**(77)**	(77)
		894	971
	Buildings on freehold land		
	Carrying amount at the beginning	**733**	818
	Additions	**78**	2
	Reversal of previous write down	**29**	–
	Depreciation Expense	**(58)**	(87)
		782	733

		2008 $'000	2007 $'000
NOTE 10	**Property, Plant and Equipment (Cont'd)**		
	Plant and equipment		
	Carrying amount at the beginning	**6,142**	**7,302**
	Additions	**2,368**	**683**
	Disposals	**(222)**	**(127)**
	Depreciation Expense	**(1,125)**	**(1,716)**
		7,163	**6,142**
	Total property plant and equipment	**10,228**	**9,235**
NOTE 11	**Trade and Other Payables (current)**		
	Creditors		
	Queensland sugar mills	**64,150**	39,103
	Trade creditors	**1,669**	4,172
		65,819	43,275
	Other creditors		
	Unrealised losses on sugar futures and option contracts	**558**	–
	Sugar futures margin calls	**2,540**	–
	Other	**4,538**	5,147
		7,636	5,147
	Deferred income relating to a future period:		
	Amounts owing to future pools (a)	**35,831**	45,747
	Sales proceeds	**84**	29
		35,915	45,776
	Total trade and other payables (current)	**109,370**	94,198

(a) Represents unrealised gains on sugar hedges and foreign exchange hedges and option contracts which will be allocated against future years' sales.

		2008 $'000	2007 $'000
NOTE 12	**Interest-bearing liabilities** (a)		
	Unsecured		
	Money market (b)	**19,666**	4,606
	Total Interest-bearing liabilities	**19,666**	4,606

(a) Represents funding for advances to mill owners, sugar futures settlements and margins.

(b) These short-term loans are repayable within 30 days.

		2008 $'000	2007 $'000
NOTE 13	**Trade and Other Payables (non-current)**		
	Other creditors		
	Unrealised losses on sugar futures and option contracts	**16,965**	–
	Other	**2,134**	2,939
	Deferred income relating to a future period:		
	Amounts owing to future pools (a)	**22,539**	5,414
	Total trade and other payables (non-current)	**41,638**	8,353

(a) Represents unrealised gains on sugar hedges and foreign exchange hedges and option contracts which will be allocated against future years' sales.

NOTE 14 Provisions

	Make good provision	Annual leave	Long Service Leave	Sick Leave	Total
	$'000	$'000	$'000	$'000	$'000
At 1 July 2007	382	1,270	1,618	67	3,337
Arising during the year	67	1,013	913	43	2,036
Utilised	–	(1,069)	(390)	(58)	(1,517)
Discount rate adjustment	(24)	–	(444)	–	(468)
At 30 June 2008	**425**	**1,214**	**1,697**	**52**	**3,388**
Current 2008	–	1,214	53	52	1,320
Non-current 2008	425	–	1,644	–	2,068
	425	**1,214**	**1,697**	**52**	**3,388**
Prior period comparatives					
Current 2007	–	1,270	33	67	1,370
Non-current 2007	382	–	1,585	–	1,967
	382	1,270	1,618	67	3,337

Make good provision

In accordance with the lease agreement with Daishio Pty Ltd, the company must restore the leased premises in Brisbane to its original condition prior to 16 August 2010.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will ultimately be incurred. The provision has been calculated using a discount rate of 6.27% (2007, 6.41%).

NOTE 15 Cash and cash equivalents

	2008	2007
	$'000	$'000
(a) Reconciliation of the Operating Surplus to the net cash flows from operations		
(Deficit)/Surplus attributable to the members of Queensland Sugar Limited for the year	**(114)**	2,237
Adjustments for non-cash items:		
Depreciation of non-current assets	**1,260**	1,880
Gain recognised on remeasurement to fair value	**(1,322)**	(96)
Net loss/(gain) on disposal of financial assets	**6**	7
Net foreign currency loss/(gain)	**95**	453
Gain/(loss) on remeasurement to fair value	**29**	–
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	**44,889**	113,450
(Increase)/decrease in inventory	**(73,463)**	58,733
(Increase)/decrease in other current assets	**(6,913)**	(12,082)
(Increase)/decrease in other non-current assets	**(35,570)**	(3,216)
(Decrease)/increase in trade and other payables	**15,172**	(88,910)
(Decrease)/increase in non-current payables	**33,285**	3,827
(Decrease)/increase in provisions	**50**	(102)
Net Cash (used in)/from Operating Activities	**(22,596)**	76,181

		2008	2007
		$'000	$'000
NOTE 15	**Cash and cash equivalents (Cont'd)**		
	(b) Reconciliation of cash and cash equivalents		
	Cash and cash equivalents balance comprises:		
	Cash on hand	**221**	22,340
	Money market liabilities	**(19,666)**	(4,606)
	Total cash and cash equivalents	**(19,445)**	17,734
	(c) Financing facilities available		
	At balance date, the following financing facilities had been negotiated and were available:		
	Commercial paper program		
	In conjunction with a number of Australian financial institutions, an Australian dollar revolving commercial paper borrowing program was entered into for the purposes of funding advance payments to mill owners and associated responsibilities.		
	Commercial paper program	**1,000,000**	1,000,000
	The program was backed by the standby facilities referred to below:		
	Credit standby facilities		
	The company at balance date had access to financing arrangements with financial institutions. All facilities were unsecured and denominated in Australian and US dollars.		
	Credit standby arrangements	**US$'000**	US$'000
	The company has in place a committed US dollar standby facility which matures in November 2008. The facility is for general funding of activities including sugar price risk management operations. Prior to maturity the company will negotiate the extension of the facility to cover the balance of its requirements for 2008/09.		
		450,000	450,000
	Letter of credit issuance facility		
	The company has in place a committed letter of credit issuance facility which matures on 31 October 2008. The facility is for making standby letters of credit for performance bonds in connection with contract tender terms. At 30 June 2008, US$2.037 million had been drawn against the facility (2007 US$1.381 million).		
		10,000	10,000
	In addition, the company had available as at 30 June 2008 uncommitted facilities with various financial institutions.		

		2008	2007
		$'000	$'000
NOTE 16	**Expenditure Commitments**		
	(a) Capital expenditure commitments		
	Estimated capital expenditure contracted for at balance date, but not provided for, payable:		
	Not later than one year	**41**	119
	(b) Lease expenditure commitments		
	Operating leases (non-cancellable):		
	Minimum lease payments		
	Not later than one year	**629**	49,035
	Later than one year but not later than five years	**746**	1,375
	Aggregate lease expenditure contracted for at balance date	**1,375**	50,410
	Amounts not provided for:		
	– rental commitments – Sugar Terminals Limited (a)	**–**	48,431
	– Other property	**1,375**	1,979
	Total amounts not provided for	**1,375**	50,410
	Aggregate lease expenditure contracted for at balance date	**1,375**	50,410

(a) The 2000 sublease with Sugar Terminals Limited included an initial term of eight years and ceased on 30 June 2008.

The company has requested Sugar Terminals Limited that the parties negotiate new lease arrangements. Until such time as these negotiations have been finalised, the company has entered into a monthly tenancy agreement with Sugar Terminals Limited on the same terms as the previous lease.

		2008	2007
NOTE 17	**Non-Hedged Foreign Currency Balances**		
	The Australian dollar equivalents of non-hedged foreign currency balances included in the accounts are as follows:		
	US dollars		
	Current assets	**11,441**	53,090
	Current liabilities	**(19,881)**	(7,434)
	Non-current liabilities	**–**	–
NOTE 18	**Employee Benefits and Superannuation Commitments**		
	Employee Benefits		
	Accrued wages, salaries and oncosts	**685**	750
	Provisions for employee benefits (current)	**1,320**	1,370
	Provisions for employee benefits (non-current)	**1,644**	1,585
	Total employee benefits and superannuation commitments	**3,649**	3,705
		$	$
	Amount contributed by the company to the QSuper defined benefit plan	**609,265**	650,480

NOTE 19 Contingent Liabilities

On 10 December 2004, Walter Construction Group Limited (WCG) (now in liquidation) served a statement of claim on the company in connection with a contract to construct a sugar shed in Townsville for Sugar Terminals Limited (STL). The statement of claim named STL as the First Defendant and the company as the Second Defendant.

WCG is claiming $15.01 million under section 52 of the Trade Practices Act 1974 in relation to alleged false and misleading conduct in correspondence and dealings leading to the award of the contract, and in the alternative, $18.96 million for various contractual claims (plus interest and costs).

In view of WCG being in liquidation, STL and the company sought an order for the security of costs in this action. While the liquidator consented to an order for costs, no moneys, as required under the Supreme Court order, have been paid. The action is stayed until such moneys have been paid into court.

The company will vigorously defend this court action and STL and the company have indicated that they have a counterclaim against WCG for the cost of rectifying defective works and increased operational costs.

The directors are of the view that the company, as STL's agent, will not be liable in respect to any judgement or settlement of the dispute.

There are no other known contingent liabilities at 30 June 2008 of a material nature.

NOTE 20 Subsequent Events

There are no known subsequent events that occurred after 30 June 2008 of a material nature.

	2008 $'000	2007 $'000

NOTE 21 Director and Executive Disclosures

Compensation of Key Management Personnel and Directors

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly, including any director. The Directors, the Chief Executive and five General Managers of the company have been classified as Key Management Personnel.

	2008 $'000	2007 $'000
Short Term	**2,660,145**	2,392,360
Post Employment	**–**	–
Other Long Term	**–**	–
Termination Benefits	**–**	–
Share-based Payment	**–**	–
	2,660,145	2,392,360

NOTE 22 Auditor's Remuneration

Amounts received or due and receivable for auditing services by Ernst & Young for:

	2008 $'000	2007 $'000
– an audit or review of the financial report of the company	**107,552**	105,000
– internal audit services to the company	**148,642**	125,000
– other services in relation to the company	**–**	–
Total auditor's remuneration	**256,194**	230,000

NOTE 23 Related Party Disclosures

Under contracts with a number of milling companies in Queensland, which came into effect on 1 January 2006, Queensland Sugar Limited purchases those milling companies' sugar production destined for the export market. This date coincided with the repeal of the vesting provisions in the Sugar Industry Act 1999 (the Act). In 2007/08, transitional arrangements ceased whereby a quantity of sugar is purchased to supply contractual commitments with domestic refiners that were in place prior to repeal of the vesting provisions under the Act. Under the terms of supply contracts with milling companies, sugar on receival becomes the absolute property of Queensland Sugar Limited, free of all encumbrances or adverse claims. In return mill owners receive a right of payment for the sugar purchased, to be calculated in accordance with the pricing options and other provisions within the contacts. The amount in respect to each season's production is determined by Queensland Sugar Limited, following the sale and pricing of that season's production on commercial terms, and progressive payments are made in accordance with the terms of the Contracts. The final payment to each milling company is made in July each year in respect to sugar produced in the previous calendar year.

Milling companies in turn make payments to cane growers for cane delivered to the mill, based on cane payment formulae incorporated into the local collective agreement for each area and advance payments received from Queensland Sugar Limited. Where applicable, the pool price forms part of the cane payment formula.

All other related transactions are on normal commercial terms and conditions.

NOTE 24 Segment Information

Queensland Sugar Limited operates in one industry segment, the handling and marketing of raw sugar produced in Queensland. The operations of the company are based solely in Australia, with raw sugar sales made throughout the world.

NOTE 25 Financial Risk Management and Instruments

The company's principal financial instruments comprise of cash and short term deposits, short term loans and derivatives. The company's activities expose it to a variety of financial risks: market risk (including currency risk and commodity price risk), credit risk and liquidity risk . The company uses a variety of derivative financial instruments to manage specifically identified foreign currency and commodity price risks. The company does not use derivative or financial instruments for speculative or trading purposes.

The use of financial derivatives is governed by risk management policies approved by the board of directors. The policies provide specific principles in relation to foreign exchange risk, commodity price risk, credit risk, the use of financial and non-financial derivatives and the management of liquidity. Compliance with these policies and procedures is reviewed as part of the internal audit function on a regular basis.

Market Risk

(i) Foreign Exchange Risk

The company is primarily exposed to the risk of adverse movements in the AUD/USD exchange rate. The company uses a variety of foreign exchange risk management instruments including forward exchange contracts and currency options to manage exchange rate risk of the Australian dollar value of US dollar receipts from the sale of raw sugar arising from known and anticipated sales. Foreign currency options entitle the company to sell US dollars at an agreed rate of exchange, while forward exchange contracts commit the company to sell US dollars at an agreed rate of exchange.

Risk management transactions have been accounted for on a basis consistent with the accounting for the underlying transaction. Gains and losses on specific risk transactions of committed future sales are deferred until the date of sale and included in the measurement of that transaction.

NOTE 25 Financial Risk Management and Instruments (Cont'd)

The following table summarises by currency the Australian dollar value of forward exchange contracts and foreign currency options. Foreign currency amounts are translated at rates current at balance date. Contracts to sell US dollars are entered into to offset the proceeds from the sale of the raw sugar.

Forward Exchange Rate Agreements (a)

2008	Average Exchange Rate	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Sell US dollar	0.8489	324,007	61,165	62,726	60,889	40,422	549,209

2007	Average Exchange Rate	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	2 to 3 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Sell US dollar	0.7847	222,553	12,208	-	-	-	234,761

Currency Options

2008	Average Exchange Rate	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Purchased AUD Call against USD	0.9111	143,403	-	-	-	-	143,403
Sold AUD Call against USD	0.8800	(14,773)	-	-	-	-	(14,773)
Sold AUD Put against USD	0.8637	107,274	-	-	-	-	107,274
Purchased AUD Put against USD	0.8474	(15,341)	-	-	-	-	(15,341)
Total		220,563	-	-	-	-	220,563

2007	Average Exchange Rate	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Purchased AUD Call against USD	0.8336	307,549	-	-	-	-	307,549
Sold AUD Put against USD	0.8004	256,944	-	-	-	-	256,944
Total		564,493	-	-	-	-	564,493

(a) $68.54 million of net foreign exchange contract gains (2007: $22.25 million gain) have been deferred as the gains represents amounts owed to future years. The expected timing of recognition based on the fair values at 30 June 2008 are one year or less: $29.75 million gain (2007: $20.84 million gain); one to two years: $8.27 million gain (2007: $1.41 million gain) and two to three years: $10.41 million gain (2007: $ Nil) and three to four years: $11.55 million gain (2007: $ Nil) and four to five years: $8.56 million gain (2007: $ Nil).

The following table details the company's sensitivity for financial instruments held at balance date to movements in the exchange rate of the Australian dollar to the US dollar, with all other variables held constant. The movements in amounts owed to/from future years in 2008 are more sensitive than in 2007 because of the increase in the value of hedges of US dollars.

	Exchange Rate 10% Decrease		Exchange Rate 10% Increase	
	2008	2007	**2008**	2007
Price Change Sensitivity	**$'000**	$'000	**$'000**	$'000
Amounts Owed to Future Years	(59,801)	(43,071)	52,017	47,056

As at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, profit would have been unchanged as a result of amounts owed to or from future years absorbing the impact of a foreign exchange fluctuation.

NOTE 25 Financial Risk Management and Instruments (Cont'd)

(ii) Commodity Price Risk

The following table summarises the notional contract amounts, maturity dates and average contract rates for sugar futures, sugar option and sugar swap contracts outstanding at balance date. The notional contract amounts are denominated in Australian dollars derived from the settlement price of the respective futures contract and converted to Australian dollars at the hedge settlement rate at balance date.

The sugar futures and sugar option contracts are entered into to manage adverse movements in the ICE No 11 and No 14 sugar price arising from known and anticipated sales that have not been price fixed or price protected. The exposure to price risk arises from sugar sales contracts where the pricing mechanism is against the ICE No 11 and No 14 sugar price.

Sugar Futures Contracts (a)

2008	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
ICE 11 Contract	14.33	84,842	-	-	-	-	84,842
ICE 14 Contract	21.74	6,318	-	-	-	-	6,318
Total		91,160	-	-	-	-	91,160

2007	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
ICE 11 Contract	10.69	69,240	(4,496)	-	-	-	64,744
ICE 14 Contract	20.45	25,798	-	-	-	-	25,798
Total		95,038	(4,496)	-	-	-	90,542

Sugar Options (b)

2008	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Purchased Puts - ETO	13.32	35,651	-	-	-	-	35,651
Sold Puts - ETO	12.50	728	-	-	-	-	728
Sold Calls - ETO	14.71	47,962	-	-	-	-	47,962
Purchased Calls - ETO	15.00	7,421	-	-	-	-	7,421
Total		91,762	-	-	-	-	91,762

2007	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
Purchased Puts - ETO	9.84	50,266	-	-	-	-	50,266
Sold Calls - ETO	10.45	93,008	-	-	-	-	93,008
Purchased Calls - ETO	11.00	41,755	-	-	-	-	41,755
Total		185,029	-	-	-	-	185,029

Sugar Swaps

2008	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
	14.24	28,251	58,829	65,524	48,226	31,236	232,066

2007	Average Price	Contract Maturities					
		< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
		$'000	$'000	$'000	$'000	$'000	$'000
	13.24	(27)	(7,152)				(7,179)

NOTE 25 Financial Risk Management and Instruments (Cont'd)

(a) $17.53 million of net commodity price risk instrument losses (2007: $3.77 million gain) have been deferred as the losses represent amounts owed from (2007 to) future years. The expected timing of recognition based on the fair values at 30 June 2008 are one year or less: $0.56 million loss (2007: $1.97 million gain); one to two years: $5.79 million loss (2007: $1.80 million gain) and two to three years: $4.16 million loss (2007: $ Nil) and three to four years: $3.88 million loss (2007: $ Nil) and four to five years: $3.13 million loss (2007: $ Nil).

The following table details the company's sensitivity of financial instruments held at balance date to movements in the sugar price with all other variables held constant. The movements in amounts owed to/from future years in 2008 are more sensitive than in 2007 because of the increase in the use of commodity price hedges.

(b) ETO – "Exchange Traded Options" and OTC – "Over the Counter Options".

	Sugar Price 30% Decrease		Sugar Price 30% Increase	
	2008	2007	**2008**	2007
Price Change Sensitivity	**$'000**	$'000	**$'000**	$'000
Amounts Owed to Future Pools	97,936	47,507	(96,717)	(39,316)

The company's sensitivity to sugar price risk at balance date is not representative of the sensitivity throughout the year as the year end exposure does not reflect the exposure during the year due to in season sugar pricing undertaken.

As at 30 June 2008, had the sugar price weakened/strengthened by 30% with all other variables held constant, profit would have been unchanged as a result of amounts owed to or from future years absorbing the impact of a sugar price fluctuation.

(iii) Interest Rate Risk

The company does not enter into financial instruments to manage cash flow risks associated with interest rate movements on borrowings. Short-term loans totalling $19.666 million (2007:$4.606 million) are repayable within 1 month (2007: 1 month) at an interest rate of 7.30% (2007: Nil) and 2.65% (2007: 5.35%) for Australian and United States Dollar borrowings respectively. Cash totalling $0.221 million (2007: $22.340 million) comprises bank and short term investments maturing overnight at an interest rate of 5.25% (2007: 6.25%) for Australian dollar investments. All remaining financial assets and liabilities are non-interest bearing.

(iv) Liquidity Risk

Liquidity risk management requires maintaining sufficient cash, committed and uncommitted facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Details of credit facilities and the maturing profile are detailed in note 15.

The table below analyses the company's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to maturity date. The amounts are not discounted.

2008	Contract Maturities					
	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Current payables	4,209	–	–	–	–	4,209
Other non-current payables	–	–	–	–	–	–
Borrowings (excluding interest)	19,666	–	–	–	–	19,666
Commodity financial instruments (a)	558	5,788	4,159	3,878	3,140	17,523
Total	24,433	5,788	4,159	3,878	3,140	41,398

NOTE 25 Financial Risk Management and Instruments (Cont'd)

2007	Contract Maturities					
	< 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Current payables	4,172	–	–	–	–	4,172
Other non-current payables	–	–	–	–	–	–
Borrowings (excluding interest)	4,606	–	–	–	–	4,606
Commodity financial instruments (a)	–	–	–	–	–	–
Foreign currency financial instruments	–	–	–	–	–	–
Total	8,778	–	–	–	–	8,778

(a) Settlement of commodity and foreign currency financial instruments will be offset by revenue from the sale of commodities.

(v) Credit Risk

(a) Financial Instruments

The exposure to credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. Credit risk is managed as part of the financial risk management program. Credit ratings of financial institutions are utilised and limits and risk weightings are applied by the company to monitor and control credit risk relating to financial instruments. No collateral or security is required by the company in dealing with these financial institutions.

At balance date, the company had no significant concentrations of credit risk to a single counterparty or group of counterparties. The company's exposures to credit risk is as indicated by the carrying amounts of those financial assets on the balance sheet.

(b) Trade Receivables

Sales of raw sugar are recognised when the Bill of Lading is signed by the ship's master. Exposure to credit risk in the event of non-performance by customers is minimised by a policy of making sales on a c&f or cif basis, with settlement generally on a cash against documents basis or by letter of credit. Sales are predominately in US dollars (refer Note 2(c)).

Credit risks are managed by periodically assessing and monitoring the credit worthiness of customers. Collateral in the form of cash deposits is required in situations where credit risk is not at an acceptable level.

At balance date, the company had no significant concentration of credit risk with any single counterparty or group of counterparties. The geographic concentrations of credit risk is disclosed in the following table:

	2008	2007
	$'000	$'000
Asia	**385**	**26,951**
Australia/Pacific	**5,202**	**19,064**
North America	**–**	**763**
	5,587	**46,778**

At balance date, trade debtors were predominantly secured by documents of title or letter of credit. 100% (2007 94%) of the total amount has since been received.

(vi) Fair Value (a)

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

- **Cash, short term loans and deposits, receivables, payables and short term borrowings:** The carrying amounts of these financial instruments approximate the fair value because of their short maturity.
- **Foreign exchange contracts, foreign exchange options, currency options and commodity swaps:** The fair value is estimated using market accepted formulae and market quoted input variables and market valuations supplied by the company's bankers.

NOTE 25 Financial Risk Management and Instruments (Cont'd)

- **Sugar Futures, Options and Swaps.** The fair value of exchange traded instruments is determined by referencing the closing price of the relevant month on the ICE No 11 and No 14 futures exchange. For over the counter instruments, quoted market prices of similar instruments is used in determining the fair value.

	Carrying Amount		Net Fair Value	
	2008	2007	**2008**	2007
Foreign Exchange Instruments	**$'000**	$'000	**$'000**	$'000
Forward Exchange Rate Contracts (b)				
Sell USD	64,643	17,206	38,795	16,711
Currency Options (b)				
Purchased AUD Call against USD	5,155	5,047	4,843	7,426
Sold AUD Call against USD	(1,261)	-	(1,181)	-
Sold AUD Put against USD	-	-	(184)	-
Purchased AUD Put against USD	-	-	-	(438)
	3,894	5,047	3,478	6,988
Total foreign exchange risk exposure	68,537	22,253	42,273	23,699
Commodity Price Instruments				
Sugar Futures Contracts (b)	(152)	6,583	(152)	6,583
Sugar Options (b)				
Purchased Puts - ETO	1,558	4,894	2,819	3,592
Sold Puts - ETO	(90)	-	(35)	-
Sold Calls - ETO	(2,631)	(4,282)	(2,510)	(2,121)
Purchased Calls - ETO	134	528	176	401
	(1,029)	1,140	450	1,872
Sugar Swap (b)	(18,085)	1,804	(18,085)	1,804
Total commodity risk exposure	(19,266)	9,527	(17,787)	10,259

(a) Although certain financial assets are carried at an amount above net fair value, Directors have not caused those assets to be written down as it is intended to retain them until maturity.

(b) Negative amounts are financial liabilities

Directors' Declaration

Declaration by directors on the financial statements and notes thereto set out on pages 17 to 43.

In accordance with a resolution of the directors of Queensland Sugar Limited, the directors declare that:

1. In the opinion of the directors the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including;

   (a) that the financial statements and notes comply with Accounting Standards and *Corporations Regulations 2001*; and

   (b) that the financial statements and notes give a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date.

2. In the opinion of the directors, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Keith De Lacy AM

Chairman

Brisbane
22 September 2008

1 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
www.ey.com/au

Independent auditor's report to the members of Queensland Sugar Limited

Report on the Financial Report

We have audited the accompanying financial report of Queensland Sugar Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

Auditor's Opinion

In our opinion:

1. the financial report of Queensland Sugar Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the financial position of Queensland Sugar Limited at 30 June 2008 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Ernst & Young

Ernst & Young

M J Hayward

Mark Hayward
Partner
Brisbane
22 September 2008

Liability limited by a scheme approved under Professional Standards Legislation

GLOSSARY OF TERMS

AUD
Australian dollar

Discretionary Pool Price
The Discretionary Pool Price is the average price per tonne IPS paid to mill owners for raw sugar produced in a given season and placed in this pool. The individual price paid to each milling company is calculated in accordance with purchase contracts entered into with QSL and is inclusive of sales premiums, results from sugar price and AUD/USD foreign exchange exposure management and is net of all costs.

EU
European Union

ICE
The Intercontinental Exchange (NYSE: ICE), operates a number of global commodity and financial products marketplaces including a number of agricultural commodity, financial index, currency futures and options contracts trade on the ICE two of which are the ICE Futures US No 11 Raw Sugar Contract and No.14 US Domestic Raw Sugar Contract.

IPS
International Pol Scale. The international pol premium scale is a price adjustment scale, described in the Rules of the Sugar Association of London. It defines the incremental price premiums and penalties applied to sugar relative to 96 degrees polarisation.

NY11
ICE Futures US No 11 Raw Sugar Contract is traded on the ICE. The contract is a deliverable futures contract with deliveries accepted from 29 sugar producing countries throughout the world. The contract is recognised as a benchmark for world raw sugar prices.

NY14
ICE Futures US No.14 US Domestic Raw Sugar Contract is traded on the ICE. The contract is a deliverable futures contract which calls for delivery of cane sugar produced in the US. The contract is recognised as a benchmark for US CIF (cost, insurance & freight) domestic raw sugar prices.

Polarisation (pol)
The sucrose content of sugar. Sugar of 98 degrees pol would contain about 98 percent sucrose.

STL
Sugar Terminals Limited

Tonnes
In this report, the use of ‘tonnes’ refers to metric tons actual or physical tonnes of raw sugar. This is sometimes referred to in the international sugar trade as tonnes tel quel. This definition will apply unless otherwise stated.

USD
United States dollar

WTO
World Trade Organisation