THE FIJI SUGAR CORPORATION LIMITED

Annual Report 2011


BELL


FIJI SUGAR CORP LTD
RARAWAI

contents

CORPORATE PROFILE

Our Organisation

The Fiji Sugar Corporation Limited was incorporated in Fiji by an Act of Parliament in 1972 to take over the milling activities with effect from 1st April 1973. It is successor to SPSM Limited and CSR Limited. In 2006 the Fiji Sugar Corporation Act was repealed allowing it to be governed solely under the Companies Act.

Our Shareholders

The Government of Fiji is the major shareholder which owns 68% of shares while statutory bodies, local companies and individuals own the rest of the shares.

Our Business

The Corporation owns and operates four sugar mills located at Lautoka, Ba and Rakiraki on the main island of Viti Levu while Labasa Mill is located on the second largest island of Vanua Levu. The mills are strategically located on the drier side of the two larger islands where conditions are more suited to cane growing.

The Corporation is responsible for the manufacture and sale of raw sugar together with molasses as a by-product. The Corporation owns and maintains some 720 kilometres of railway network on which sugar cane is transported to the mills. The Corporation is one of the largest sector employers with a workforce of around 2,000 individuals during the peak crushing session.

The Sugar Industry is important to Fiji's economy as it contributes about 1.6 percent of GDP, generates about 6.0 percent of total exports with a total foreign earning of $92.7 million in 2010. Unlike many other export-oriented industries, most production inputs are domestic and have a high regional impact and cross-sectoral linkages.

The Corporation through its subsidiaries and related companies is also engaged in development and project work (FSC Projects Limited) and agriculture chemicals (Agchem Limited).

Corporate Highlights

Financial Results

- Corporation's share of proceeds was $36.5 million compared to $54.1 million in the previous year.
- Consolidated trading loss was $32.3 million, compared to a loss of $13.2 million in the previous year.
- Loss from operations increased to $37.3 million, compared to $19.4 million in the previous year.
- Operating loss for the year was $36.6 million, compared to $175.1 million in the previous year.
- A total of $14.5 million was invested in Property Plant and Equipment, compared to $24.6 million in the previous year.
- Earnings per share improved to ($0.82) from ($3.94) in the previous year.

Operations

- A total of 1.8 million tonnes of sugarcane was crushed from an area of 44,927 hectares compared to 2.2 million tonnes from 49,004 hectares in the previous year.
- Sugar production decreased to 131,506 tonnes compared to 167,611 tonnes in the previous year primarily as a result of reduced cane production.
- Tonnes Cane to Tonnes Sugar (TCTS) ratio was 13.5 compared to 13.4 in the previous year.
- Cane Quality (POCS) was to 10.4 compared to 10.3 in the previous season.
- The total sugar exported to EU was 110,731 tonnes compared to 152,906 tonnes in the previous year.

FINANCIAL SUMMARY

	2011	2010
	$'000	$'000
Sales and Profit		
Total sales	141,451	194,695
Operating (loss) before extraordinary items and income tax	(32,256)	(13,233)
Income tax benefit	-	22,944
Unrealised exchange gain/(loss)	10,893	3,996
Impairment Loss	-	173,378
Operating (loss) and extraordinary items after income tax	(36,624)	(175,065)
Cash Flow ($'000)		
Operating activities	(32,914)	(23,035)
Investing activities	(16,716)	(24,505)
Financing activities	49,530	54,908
Net increase/(decrease) in cash	(100)	7,368
Financial Position ($'000)		
Working capital	(95,855)	(51,860)
Current assets	45,685	31,046
Total assets	148,697	140,345
Non-current liabilities	107,817	121,475
Current liabilities	141,540	82,906
Shareholders' equity	(100,660)	(64,036)
Additional Information		
Ratio of current assets to current liabilities	0.3	0.4
Ratio of debt to shareholders' equity	(2.5)	(3.2)

CORPORATE GOVERNANCE

FSC views corporate governance in its widest sense, almost like a trusteeship; it is a philosophy to be professed, a value to be imbibed and an ideology to be ingrained in our corporate culture.

Corporate governance goes much beyond mere compliance; it is not a simple matter of creating checks and balances. It is in fact a continuous process of realising the Corporation's objectives with a view to make the most of every opportunity. It involves leveraging its resources and aligning its activities to consumer need, shareholder benefit and employee growth. Thereby the Corporation succeeds in delighting its stakeholders while minimising risks.

The primary objective is to create and adhere to a corporate culture of conscientiousness and consciousness, transparency and openness. The Corporation aims to develop capabilities and identify opportunities that best serve the goal of value creation, thereby creating an outstanding organisation.

Board's Responsibilities

The Board remains committed to upholding the highest standards of integrity and transparency in its governance of the Corporation. The importance and the value of a balanced interplay between management, board and shareholders within the company remain a major principle governing the conduct of the Corporation.

The Corporation aims to be at the forefront of internationally recognised best governance practice. The Corporation complies in all material respects with the generally accepted governance principles. Corporate governance, as a dynamic interplay of forces, has its own sets of challenges and continues to evolve, especially in a small country like Fiji.

Central to the Corporation's sound corporate governance practices is the management of relationships and interests of its stakeholders. The Corporation embraces these challenges through its strategy, people, teamwork, leadership, experience and skills, relationships and proper identification and control of business risk. In doing so, the Board is required to determine sound management information and reporting system to the shareholders.

The Board supports a strong disclosure regime acknowledging transparency as a key element of an effective corporate governance system. This includes timely and accurate information to be disclosed on matters such as the Corporation's financial and operating results, its objectives, major share ownership and voting rights, remuneration for directors and material foreseeable risk factors.

In addition to disclosure on commercial objectives, the Board encourages disclosure of policies relating to the environment and the communities in which the Corporation operates. The Board meets regularly and receives full information in advance to help it discharge its duties. A Directors Package comprising pertinent background information and critical information on major risks, global industry trends and future direction of the Corporation is made available to all new directors.

The Board also supports the policies, principles and standards set out in the Companies Act, the accountancy profession and relevant statutory reporting requirements. While these do not determine the detailed course of conduct by directors, they support the need for the highest standards of behaviour and accountability.

Composition of the Board

The Board aims to bring people of the right calibre with a wide and diverse range of business experience and expertise. There are 7 directors on the Board, appointed by the shareholders. Board representation also includes key stakeholders.

Role of Shareholders

The Board ensures that shareholders are fully informed of all major developments affecting the Corporation's business. Information is communicated to shareholders in the Annual Report, special reports and forum. The Board encourages full participation of shareholders to ensure a high level of accountability in determination of the Corporation's direction, strategies and goals.

Management's Responsibility

The information presented in this report is prepared by the Corporation's Management which maintains systems of internal accounting controls, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets. Management regularly seeks independent assessment and reviews of its internal accounting controls, policies and procedures.

Boards of Subsidiaries and Associate Entities

Directors on the Boards of the Corporation's subsidiaries and associate entities are appointed so as to provide requisite skills necessary to maximise shareholder value and safeguard stakeholder interests by promoting governance practices, policies and procedures which are generally consistent with those of the Corporation.

BOARD OF DIRECTORS

Ratu Aisea Kotonivere
Appointed to the Board on 28 October 2009.
Ratu Aisea is a former Civil Servant. He is now a businessman and is also a Director of the iTaukei Land Trust Board.

Alipate Qetaki
Re-appointed to the Board on 27 October 2010.
Mr Qetaki is a lawyer by profession and is the General Manager of iTaukei Land Trust Board.

Dijendra Singh
Appointed to the Board on 27 October 2010.
Mr Singh is a businessman from Ba.

Abdul Khan
Executive Chairman
Appointed to the Board on 28 October 2009.
Mr Khan is a businessman and an Engineer by profession.
Mr Khan took up the position of Executive Chairman on 1st January 2011.

Marika Gaunavou
Deputy Chairman
Re-appointed to the Board on 28 October 2009. Mr Gaunavou is a retired Mill Chief Engineer and Factory Manager-FSC.

Ratu Deve Toganivalu
Re-appointed to the Board on 27 October 2010.
Mr Toganivalu is the Chief Executive Officer of the Fiji Development Bank

Viliame Gucake
Re-appointed to the Board on 27 October 2010.
Mr Gucake is the Director Sugar at the Ministry of Sugar.

EXECUTIVE MANAGEMENT GROUP

CORPORATE

Abdul Khan	Executive Chairman
Ali Ubadutt	Chief Financial Officer
Timoci Laqai	Human Resources Manager/Company Secretary
Seru Vularika	Manager Relationships
Thomas Peters	Manager Engineering
Rajneesh Charan	Manager Information

MILLS

Mikaele Biukoto	Production Manager, Lautoka Mill
Viliame Savou	Production Manager (Acting), Rarawai Mill, Ba.
Karia Christopher	Production Manager, Labasa Mill.
Sailasa Waitawa	Production Manager, Penang Mill, Rakiraki.

(Left to Right) Mikaele Biukoto, Viliame Savou, Thomas Peters, Sailasa Waitawa, Rajneesh Charan, Seru Vularika, Ali Ubadutt, Timoci Laqai, Karia Christopher, Abdul Khan.

EXECUTIVE CHAIRMAN'S REPORT

THE WAY FORWARD

The year in review has been another difficult year for the company. It is fair to say that without the financial support of our major shareholder, the Fiji Government, the company would not have been able to maintain continuity in its operation.

This financial support was most prominent when the Fiji Government allocated $110 million in its calendar year 2011 for the Corporation.

Due to the importance of the sugar cane industry to the economy of Fiji and the dependence of some 200,000 people, the Government has made a firm commitment to support the industry and, through restructuring, bring about its commercial viability and long term survival. The Government engaged Deloitte of New Zealand to carry out a study whereby providing a framework for change and revival of the industry. The 7 proposals under the reform framework were cane development and cane replanting; cane quality payment system; single extension services; aggregation of small farms; transfer of transportation of cane to FSC; consultative contract harvesting gangs and incentive based remuneration to FSC Senior management.

Under each of these proposals, there were a number of recommendations. Subsequently a Government appointed Sugar Task Force further developed the Deloitte Report into a "Proposed Sugar Industry Reform Framework" covering the seven activities outlined above.

It is the combination of these two documents and Cabinet endorsement that has driven the change to ensure that the industry is once again viable and vibrant.

Another feature of the revival of the industry is the involvement of Tate and Lyle Sugars, our EU based customer, through technical on the job assistance.

The sugar industry globally has experienced increased costs of production both in the plantations as well as in cane processing. The successful models adopted in most countries are those that have enhanced revenue streams through value adding such as ethanol production, electricity generation and refineries for raw sugar.

Heading into the next financial year and beyond the main drivers of the company would be;

- Containment of operating costs.
- Increase volume of cane processing.
- Backward intergrating into cane farming.
- Value enhancing investments in the form of electricity generation, ethanol production and refining raw sugar.
- Strengthening the company's balance sheet.
- Returning the company to profitability and positive cash-flow

Review of Operations

Operating Results

The Corporation incurred a trading loss of $32.3 million for the financial year ended 31 May 2011 when compared to $13.2 million for the previous year. The increase in trading loss is largely due to decrease in operating revenue by $53.2 million. Total revenue from sugar and molasses was $141.5 million compared to $194.7million for the previous year. The reduction in revenue is attributable to reduction in sugar production by 21.5% and reduction in average sugar price by 17% in comparison to the previous year.

Whilst FSC's direct cost of operation decreased by $9.2 million, the cost of depreciation on plant and machinery increased by $5.1 million. The increase in depreciation cost is largely due to capitalisation of the plant and machinery under the mill upgrade program.

The interest cost on FSC's borrowings increased by $3.3 million to $9.8 million and the unrealized exchange gain increased from $4.0 million to $10.9 million for the year under review. The loss for the year after tax was $36.6 million compared to $175.1 million for the previous year.

Impairment Loss

In accordance with International Accounting Standards 36 "Impairment of Assets", each year the Corporation assesses carrying value of its assets to determine whether there is any indication that those assets have suffered an impairment loss. Based on the independent assessment, the Management has carried out an assessment of the recoverable amount. Due to improvement in sugar prices and the expected improvement in mill efficiency and TCTS ratio, the enterprise value has been assessed to have improved. However the management has decided to retain the impairment loss at $173.4 million recognized in the previous year and reassess the impairment provision based on actual mill performance and price trends for the 2011 season.

Cane Production

The four mills crushed 1,779,712 tonnes cane in the 2010 season, a decrease of 466,919 tonnes from the previous year. Some 94,000 tonnes of sugarcane were unharvested when the mills ceased crushing, largely due to poor harvesting efforts.

Overall crop yield averaged 40 tonnes per hectare from an area of 44,927 hectares compared to 46 tonnes per hectare from an area of 49,004 hectares in 2009.

Problems associated with non-renewal of land leases for the sugarcane farmers and declining farm income levels arising out of the EU reforms to its internal sugar market regime have largely contributed to the continued decline in cane production and productivity.

These, together with the unpredictable political climate over the years are having an adverse impact on growers' interest and confidence level.

Cane Quality

POCS remained almost unchanged from the previous season and stood at 10.4 for the 2010 season. Cane purity for the season was 79.3. These results were slightly better from last year but not significant enough to materialize into gains in the form of improved yields. Fibre in cane was also low and the mills had to depend on extraneous fuel at considerable costs.

Mitigation of declining income at farm level will have to come from reducing production cost and increasing farm yield. Increased yields can be realized by progressive cane replanting of old uneconomical ratoons.

Government supported the cane planting program with a $ 6.0 million grant allocation to assist growers in preparing their available fallow land for planting in 2010 season. This had seen an increase in plant acreage to 6,400 hectares compared to 3,400 hectares in the previous year.

For future planting programs, starting in 2011, Government's grant allocation of $6.0 million for the 2011 planting window will now become the seed to establish a revolving fund as a means of providing affordable financing package for farmers to enable them to carry out cane planting on time and in the right way, and enhance the industry's drive towards cane production and yield improvements.

The Sugar Cane Growers Fund is providing an additional $3.0 million for a total revolving fund of $9.0 million.

Under an MOU that has been signed between Government and industry stakeholders, the Sugar Cane Growers Fund will provide interest-free loans, repayable over three years to support 'genuine' farmers in meeting their future planting requirements.

Commercial Farms

FSC is developing a 427-hectare parcel of native land in Ba in its drive to become a bigger participant in producing the raw material on a larger scale and take ownership of cane production, which has fallen drastically to a level that is not sustainable for the mills.

Under its cane development plan, other suitable, contiguous land parcels are being sought for commercial cane farming to boost cane production and generate income for FSC. These nucleus farms will act as demonstration farms, providing technical support like quality seed materials, farm machinery and extension service to smaller growers in the vicinity.

Cane Harvesting and Transport

Rising inefficiencies in the cane harvesting and transportation sector are due to lack of economies of scale, a fragmented labour market and poor co-ordination between stakeholders in the cane/sugar production supply chain.

Studies have been commissioned and the industry must move together on some of the recommendations to address inefficiencies and reduce the growers' cost of harvesting and transporting their cane to the factory, which constitutes 45 – 60 percent of their cost of production.

Burnt Cane

Burnt cane continues to be an evasive issue in the sugar industry. Everyone desires to see the industry rid itself of burnt cane. There is no solution in sight despite several measures being put in place in the past. Legislation may be the solution.

While the overall burnt cane ratio has come down to 23 percent from 32 percent in 2009 and 50 percent in 2008, it needs to be noted that the scale of burnt cane supplied daily during the last quarter of the season at each mill averaged between 85 – 98 percent.

Quality Payment Trial

Technical evaluation has been completed at Lautoka Mill with positive results and the Corporation is in a position to progress the project to the implementation stage. Some consultations have been carried out on finding the best solution for a payment formula and the Corporation will soon map out a plan and give directives on how this will be addressed. The implementation of a payment system based on quality will also see a reduction in extraneous matter and burnt cane supply to the mills. Improvement is expected to be realized in better sugar yielding varieties of cane.

Milling Operations

A total of about 1.8 million tonnes of cane was crushed from an area of 44,927 hectares compared to 2.2 million tonnes cane from 49,004 hectares in the previous year.

The weekly average crush for the 2010 season was 69,116 tonnes compared to 77,575 tonnes in 2009. The low factory uptime and poor recoveries was largely attributed to commissioning issues of the new plant and equipment installed under the upgrade program. Rarawai Mill was the worst affected, it continued to have difficulties in dovetailing the new and existing technologies.

Certain incomplete project works, poor quality/failure of equipments supplied and low operator skills also contributed to overall poor performance.

The Mill Upgrade Program has been substantially completed with almost all remedial and residual works completed. Specialists were brought in to audit the factory operations and performance and to come up with recommendations on areas to improve on. Bottle-neck areas have been identified and rectified.

A factory stabilization program has also been put in place to address poor factory uptime and recoveries. Assistance has also been provided by Tate and Lyle in the form of experienced and specialized engineering support personnel to assist in resolving identified issues during the maintenance season.

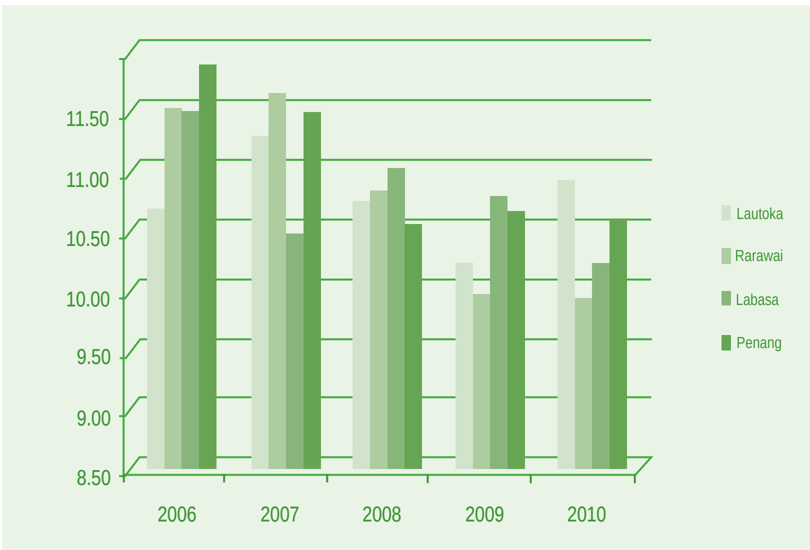
Plant operators and supervisors have been given classroom training and mentoring in the new technologies by the resident Chief Production Technologist from India.

Sugar and Molasses Production

Sugar production for the 2010 season was 131,506 tonnes and was about 36,100 tonnes below the 2009 production. Major plans and work programs have been implemented in the 2011 maintenance season to arrest and reverse the declining trend in sugar recovery.

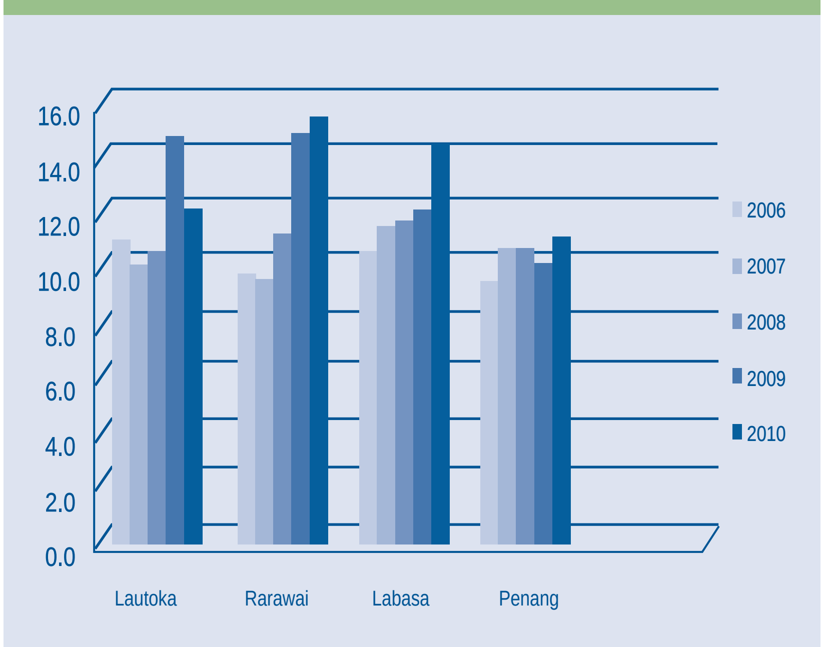
These include major investments in refurbishing the Rarawai and Penang Mill boilers, installing new vertical juice heaters at Lautoka Mill, carrying out repairs to all problematic steam, vapour and juice valves supplied under the upgrade program, addressing and rectifying the identified bottle-neck areas and implementing a factory stabilization plan for the 2011 season to achieve continuous and consistent factory operations to maximize sugar recovery.

Molasses production was 6.3 percent on cane and was the highest in the last five years. This reflects the loss of sugar due to unusual processing difficulties, low factory uptime and the usual problem of high volumes of delayed burnt cane in the latter part of the season, and generally poor quality cane being delivered to the factory.



POCS

TCTS



Sugar Quality

Average sugar quality was within specifications. Dextran level in sugar was brought under reasonable control to the satisfaction of the buyer.

MARKETING

World Market

Over the last year, sugar prices have climbed higher than 50% from a base of around US 15c/lb in the third quarter of 2010. The price dynamics have however been subject to significant volatility. Logistic issues in Brazil, the main suppliers during the second half of 2010 saw futures prices dragged up by cash differentials as suppliers chased the market for spot cargoes in order to fulfil outstanding sales commitments. This was followed in Q4 2010 and into Q1 2011 by confirmation of disappointment crop prospects in the northern hemisphere resulting in continued trade flow deficits around the Q1 position.

Sugar/Molasses Exports

A total of 110,731 tonnes of sugar was exported to UK and for molasses a total of 106,698 tonnes was shipped to various destinations such as to the Caribbean, Korea and New Zealand.

The current prices for sugar and molasses have been a major point of discussion with Tate and Lyle for the past year. Representatives from both sides have agreed on a proposal to review the current price to reflect closely to the prevailing world market price.

Sugar Imports

A total of 10,000 tonnes of Thailand sugar was imported in Q1 of 2011 to cover for the shortfall in production of local consumption sugar. The high cost of imported sugar forced the Corporation to increase the price of local sugar to around F$1900.00 per tonne from F$857.90 per tonne.

RISK MANAGEMENT

The Corporation recognizes the need that a robust Risk Management program is essential to business growth and development. In order to practically demonstrate this recognition, the Corporation continues to develop appropriate business strategies to address risks in all areas of its operation.

HUMAN RESOURCES

Manpower

The Corporation is mindful of the need to maintaining appropriate balance when reviewing and implementing strategies in order to maximize its resources and enhance workplace productivity. Various strategies like organisational restructure, outsourcing of non core functions and streamlining the Corporation's operations were carefully considered and implemented in order to meet the Corporation's objective.

Industrial

The Corporation continued to maintain cordial relationship with the Unions. The industrial relations machinery of the Ministry of Labour is used by the Corporation as a last resort.

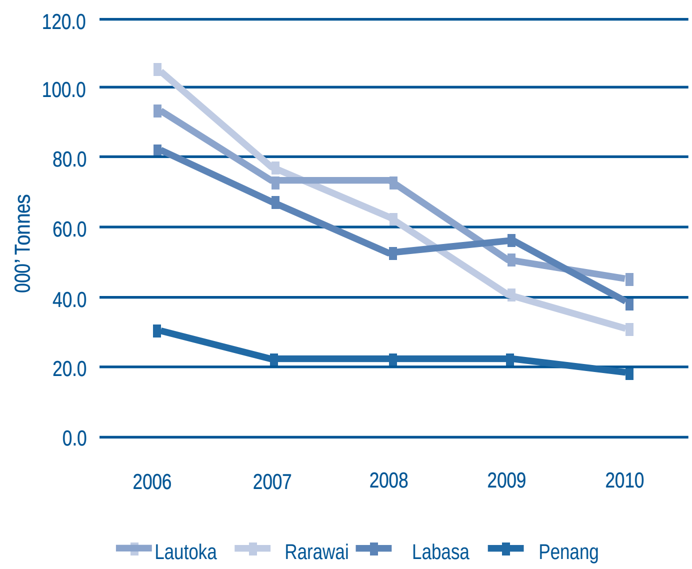
Training & Development

The Corporation is cognizant of the need to constantly upgrade the skills, knowledge, attitude and innovativeness of its employees so that they are continuously challenged to improve productivity.

A total of 98 training programs were conducted during the year in which 1462 employees were trained in key operational areas such as technical, field operations, management, OHS and information technology. The average training cost was $118 per trainee.

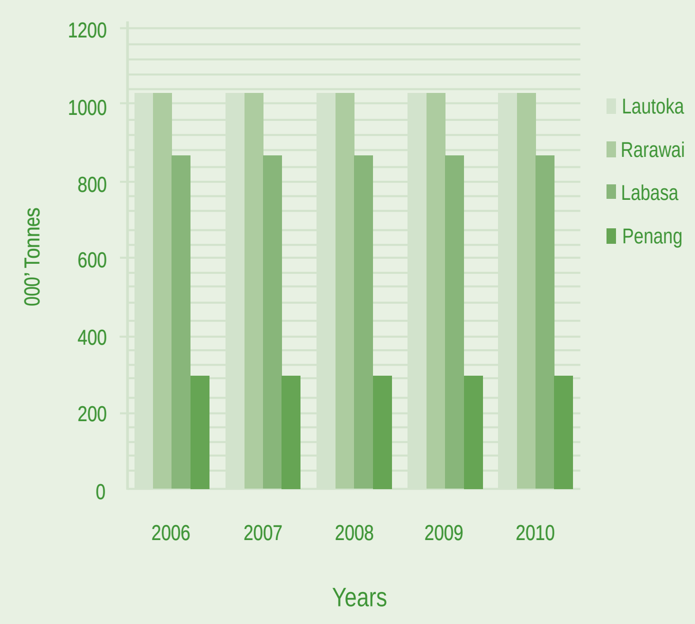
A total of 60 tradesmen successfully completed their training with the Australian Pacific Technical College and graduated with Certificate 3 in their respective trades.

Our apprentices have again brought glory and honour to our organization by scooping most of the awards at stake besides winning the Best Overall and Second Runner Up for the National Apprenticeship Award.



Sugar Production

Cane Production



Occupational Health and Safety

Occupational Health and Safety has been the central focus of the way we conduct the Corporation's business. With the introduction and implementation of our OHS management system, we have observed great improvement in this area and our aim is for continuous improvement and be a resilient organization in this area.

INFORMATION SYSTEM

The Corporation recently embarked on implementing a fully integrated bio-metric time and attendance, payroll and HR solution. This is expected to provide real time information on FSC's payroll and generally improve worker productivity and discipline throughout the organisation.

During the year in-house capabilities were enhanced in managing and maintaining Geographical Information Systems (GIS). Investment was also made on GPS handhelds for accurately gathering information from the field and ArcGIS software for developing a GIS based dynamic decision support system for the Industry.

As part of ongoing security improvements, FSC also upgraded its corporate antivirus software and implemented CISCO firewall to enable better security and defence mechanism.

ENVIRONMENT

The Corporation is mindful of the importance of maintaining a clean environment for its workforce, other stakeholders and the community. It is important that it continues to address areas of concern such as pollution, in particular its waste discharge during mill operation.

The main focus during the year has been the implementation of the various engineering controls in line with the mill upgrade program in order to minimize discharge of waste to the environment. A significant amount of capital funds has been spent on mills to upgrade and install the new equipmen with monitoring devices and control systems. New methods of cleaning the juice boiling vessels using high pressure water systems instead of the conventional caustic boiling and brushing has been trialed out at Rarawai and Lautoka mills by contracted companies with positive results.

The mills are also looking to upgrade boiler ash handling systems to minimize discharge from the stack. Works in putting in a systematic approach to address environment and OH&S was also carried out as a result of integration of OH&S and Environmental Management Acts. Committees have been formed at all mills to monitor and address pollution issues as part of the Corporation's due diligence.

The Corporation remains committed to addressing environmental issues in the workplace.

ACKNOWLEDGEMENT

We wish to acknowledge our appreciation of the significant contribution of the Fiji Government and the involvement of the Ministry for Sugar through the Minister for Sugar. The majority of the Government funds has been used to repay debt as they fell due.

We also wish to acknowledge the assistance of the Sugar Task Force for their contributions.

Due to the complexity of the industry, all the stakeholders are intertwined and any material effect of one stakeholder has a flow on effect on all. In this regard I would like to acknowledge the contributions of the farmers, lorry operators, Sugar Cane Growers Council, Sugar Tribunal, South Pacific Fertilizers, Cane Growers Fund and our various service providers.

During the year, our then Chairman, Mr Gautam Ramswarup resigned. We thank him for his contribution.

Last but not least, I wish to thank my fellow Directors and all the staff of FSC for their support and contribution. It is the continued dedication of all the parties mentioned above that will ensure that the sugar cane industry will become a vibrant and viable industry once again.

Executive Chairman

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2011

contents

DIRECTORS' REPORT

In accordance with a resolution of the board of directors, the directors herewith submit the statement of financial position of The Fiji Sugar Corporation Limited (the Corporation) and of the Group as at 31 May 2011 and the related statement of comprehensive income, statement of changes in equity and statement of cash flow together with notes thereon for the year then ended and report as follows:

Directors

The names of directors in office at the date of this report are:

Mr Abdul Khan -Executive Chairman
Mr Marika Gaunavou -Deputy Chairman
Ratu Deve Toganivalu
Ratu Aisea Katonivere
Mr Dijendra Singh
Mr Alipate Qetaki
Mr Viliame Gucake

Group Financial Statements

The financial statements have been consolidated on the basis that the Corporation fully owns the equity capital of the subsidiaries.

Principal Activities

The Corporation owns and operates four sugar mills and is involved in the milling of sugarcane, manufacture and sale of sugar and molasses produced.

Principal activities of subsidiary companies are as follows:

FSC Projects Limited - equity investments.

FSC Services Pty Limited - this company ceased operations from May 2006.

Pacific Cogeneration Limited - to generate electricity and develop electrical power facilities and to supply and sell electricity. The company has yet to commence operations.

There were no significant changes in the nature of these activities during the financial year.

Results

The consolidated results of the Group are summarized below:	2011 $'000	2010 $'000
Loss from operations	(37,274)	(19,364)
Finance income	274	724
Finance costs	(9,880)	(6,594)
Allowance for inventory obsolescence	(165)	(1,872)
Unrealised exchange gain, net	10,893	3,996
Employee redundancy cost	(290)	(1,507)
Impairment loss on property, plant and equipment	-	(173,378)
Impairment loss on investment in associate	(160)	-
Share of loss from associate	(22)	(14)
Loss before income tax	(36,624)	(198,009)
Income tax benefit	-	22,944
Loss for the year	**(36,624)**	**(175,065**

DIRECTORS' REPORT [CONT'D]

Dividends

The directors recommend that no dividends be declared for the year ended 31 May 2011.

Reserves

It is proposed that no amounts be transferred to reserves within the meaning of the Seventh Schedule of the Companies Act, 1983.

Basis of Accounting - Going Concern

The financial statements have been prepared on a going concern basis on the assumption that the Corporation will continue to receive financial support and ongoing support from the Government of the Republic of Fiji, the Corporation's debt will be restructured with additional equity and /or funding provided by the Government, the Corporation will achieve improvements in mill efficiency and mill performance together with improved cane supply and thereby generate adequate profit and cash flows from future operations to meet its obligations as and when they fall due. The directors believe that with the financial and other support of the Government, the Corporation and the Group entities will be able to continue in operation for at least 12 months from the date of this statement and the classification and carrying amounts of assets and liabilities as stated in these accounts are appropriate.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might become necessary should the Corporation and the Group be unable to continue as a going concern.

Significant Events During the Year

a) Mill Upgrade Program

During the year, the Mill Upgrade Program has been substantially completed. The mill upgrade is expected to bring improvement in the plant reliability, sugar extraction, sugar quality and energy efficiency as envisaged. The performance of mill, mill uptime, and TCTS ratio is expected to improve.

Further, management is making all efforts in consultation with the project engineers, contractors and consultants to bring about efficiency within the upgraded mill plants and machinery at the three larger mills. Training of operators in critical areas of operations is continuing under the guidance of technical experts. It is expected with continuous improvement in this manner, the performance of the upgraded plants will fully integrate with older plant and machinery and it is expected the milling efficiencies will improve to an acceptable level of performance.

DIRECTORS' REPORT [CONT'D]

Significant Events During the Year (Cont'd)

b) Impairment of Plant and Equipment

For the year ended 31 May 2011, an independent impairment review of the assets of the Corporation was carried out by an independent consultant from New Zealand. The impairment assessment was undertaken in accordance with International Accounting Standards 36 "Impairment of Assets". Based on the independent assessment, Management has carried out an assessment of the recoverable amount. Due to improvement in sugar prices and the expected improvement in mill efficiency and TCTS ratio, the value of plant and equipment has been assessed to have improved. However management has decided to retain the provision for impairment loss at $173.4 million and to reassess the impairment provision as at 31 May 2012 based on actual mill performance and price trends for the 2011 season and overall financial performance.

c) On 1 July 2010 Tate & Lyle PLC ("Tate & Lyle") announced that it had signed an agreement for the sale of its EU Sugar Refining operations to American Sugar Holdings, Inc ("ASH"). The sale of Tate and Lyle facilities to ASH has no impact on the delivery of the Corporation's raw sugar.

d) Delisting from South Pacific Stock Exchange

On 14 January 2011, the Corporation submitted an application to voluntarily delist from the South Pacific Stock Exchange in light of the Corporation's difficult financial position, financial support and other assistance being provided by the Government and difficulties in meeting the listing requirements of the Stock Exchange.

The Corporation was delisted from the South Pacific Stock Exchange on 24 February 2011.

Bad and Doubtful Debts

Prior to the completion of the Corporation's and Group's financial statements, the directors took reasonable steps to ascertain that action has been taken in relation to writing off of bad debts and the making of allowance for impairment. In the opinion of the directors, adequate allowance has been made for doubtful debts.

As at the date of this report, the directors are not aware of any circumstances, which would render the amount written off for bad debts, or the allowance for impairment in the Corporation's or the Group's financial statements, inadequate to any substantial extent.

Non-Current Assets

Prior to the completion of the financial statements of the Corporation and the Group, the directors took reasonable steps to ascertain whether any non-current assets were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Corporation and the Group.

Where necessary, these assets have been written down or adequate allowance has been made to bring the values of such assets to an amount that they might be expected to realise.

As at the date of this report, the directors are not aware of any circumstances, which would render the values attributed to non-current assets in the Corporation's and Group's financial statements misleading.

DIRECTORS' REPORT [CONT'D]

Unusual Transactions

In the opinion of the directors, the results of the operations of the Corporation and the Group during the financial year were not substantially affected by any item, transaction or event of an abnormal character, nor has there arisen between the end of the financial year and the date of this report, any item, transaction or event of an abnormal character likely, in the opinion of the directors, to affect substantially the results of the operations of the company in the current financial year.

Events Subsequent to Balance Date

Subsequent to balance date, the Corporation obtained funding of $56.5 million from the Government to meet repayment of Government guaranteed loans and to fund ongoing working capital requirements.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group or any company in the Group, the results of those operations, or the state of affairs of the Group or any company in the Group in future financial years.

Other Circumstances

As at the date of this report:

(i) no charge on the assets of any company in the Group has been given since the end of the financial year to secure the liabilities of any other person;

(ii) no contingent liabilities have arisen since the end of the financial year for which any company in the Group could become liable; and

(iii) no contingent liabilities or other liabilities of any company in the Group has become or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Corporation or the Group to meet its obligations as and when they fall due.

As at the date of this report, the directors are not aware of any circumstances that have arisen, not otherwise dealt with in this report which would make adherence to the existing method of valuation of assets or liabilities of the Corporation and the Group misleading or inappropriate.

Directors' Benefits

Since the end of the previous financial year, no director of the Corporation has, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors as shown in the Corporation's financial statements) by reason of contract made by the Corporation or related corporation with the director or with a firm of which he is a member, or with a company in which he has substantial financial interest.

For and on behalf of the board and signed in accordance with a resolution of the board of directors.

Dated this 19th day of October 2011.

Director

Director

STATEMENT BY DIRECTORS

In accordance with a resolution of the board of directors of The Fiji Sugar Corporation Limited, and subject to disclosures made in the financial statements including disclosure under Note 21 in relation to going concern and support by the Government, we state that in the opinion of the directors:

(a) the accompanying statement of comprehensive income of the Corporation and of the Group is drawn up so as to give a true and fair view of the results of the Corporation and of the Group for the year ended 31 May 2011;

(b) the accompanying statement of financial position of the Corporation and of the Group is drawn up so as to give a true and fair view of the state of affairs of the Corporation and of the Group as at 31 May 2011;

(c) the accompanying statement of changes in equity of the Corporation and of the Group is drawn up so as to give a true and fair view of the changes in equity of the Corporation and of the Group for the year ended 31 May 2011;

(d) the accompanying statement of cash flow of the Corporation and of the Group is drawn up so as to give a true and fair view of the cash flows of the Corporation and of the Group for the year ended 31 May 2011;

(e) at the date of this statement, we believe that the Corporation and the companies in the Group will be able to pay their debts as and when they fall due; and

(f) all related party transactions have been adequately recorded in the books of the Corporation and the companies in the Group.

For and on behalf of the board and signed in accordance with a resolution of the board of directors.

Dated this 19th day of October 2011.

Director

Director

INDEPENDENT AUDITORS' REPORT

To the members of The Fiji Sugar Corporation Limited

Report on the Financial Statements

We have audited the accompanying financial statements of The Fiji Sugar Corporation Limited (the "Corporation") and the Group, which comprise the statement of financial position as at 31 May 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 25 to 65.

Director's and Management's Responsibility for the Financial Statements

Directors and management are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act, 1983. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITORS' REPORT [CONT'D]

To the members of The Fiji Sugar Corporation Limited (Cont'd)

Audit Opinion

In our opinion:

(a) proper books of account have been kept by the Corporation and the Group entities, so far as it appears from our examination of those books; and

(b) the accompanying financial statements of the Corporation and the Group which have been prepared in accordance with International Financial Reporting Standards:

  i) are in agreement with the books of account;

  ii) to the best of our information and according to the explanations given to us:

    (a) give a true and fair view of the state of affairs of the Corporation and of the Group as at 31 May 2011 and of the results, changes in shareholders' equity and cash flows of the Corporation and of the Group for the year ended on that date; and

    (b) give the information required by the Companies Act, 1983 in the manner so required.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.

Emphasis of Matter

Without qualifying our opinion expressed above, we draw attention to the following matter:

Regarding Continuation as a Going Concern

The Corporation incurred significant losses during recent years. During the year ended 31 May 2011, the Corporation incurred a loss of $36.4 million (2010: $175.1 million, including impairment losses of $173.4 million). The Corporation has generated negative cash flows from operations of $32.9 million for the year ended 31 May 2011.

As at 31 May 2011, total liabilities of the Corporation exceed total assets resulting in net liabilities of $102 million. The current liabilities exceed the current assets by $97.2 million.

The Corporation has significant debt repayment commitments amounting to over $113 million during the financial year ending 31 May 2012. Furthermore, the Corporation will require funding to meet its working capital requirements and capital expenditure.

The above conditions and other matters as disclosed in Note 21 of the financial statements indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's and the Group's ability to continue as a going concern.

INDEPENDENT AUDITORS' REPORT [CONT'D]

To the members of The Fiji Sugar Corporation Limited (Cont'd)

Emphasis of Matter (Cont'd)

Regarding Continuation as a Going Concern (Cont'd)

The appropriateness of the going concern assumption on which the financial statements are prepared is critically dependent on the Government's financial and other support to the Corporation and the sugar industry, the restructuring of the Corporation's debt and additional equity and /or funding provided by the Government to enable the Corporation to continue in operation for at least twelve months. The appropriateness of the going concern assumption is also dependent on significant improvements in mill performance, and other factors as outlined in Note 21.

Should the going concern assumption be not appropriate, adjustments would have to be made to reflect a situation where the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts stated in the statement of financial position of the Corporation and of the Group. In addition, the Corporation and the Group may have to provide for further liabilities which may arise, and to classify the non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.

SUVA, FIJI
19TH OCTOBER 2011

CHARTERED ACCOUNTANTS.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MAY 2011

	Notes	Consolidated		Holding Company	
		2011	2010	2011	2010
		$'000	$'000	$'000	$'000
Turnover					
Exports, sugar and molasses		106,448	170,899	106,448	170,899
Local, sugar and molasses		35,003	23,796	35,003	23,796
		141,451	**194,695**	**141,451**	**194,695**
Less: Cost of sales		(173,707)	(207,928)	(173,707)	(207,928)
Gross loss		(32,256)	(13,233)	(32,256)	(13,233)
Other income		1,186	182	1,186	182
Realised exchange gain		491	884	491	884
Administrative and operating expenses		(6,695)	(7,197)	(6,692)	(7,194)
		(5,018)	(6,131)	(5,015)	(6,128)
Loss from operations	5	(37,274)	(19,364)	(37,271)	(19,361)
Finance income	6	274	724	273	723
Finance costs	6	(9,880)	(6,594)	(9,880)	(6,594)
Unrealised exchange gain, net		10,893	3,996	10,893	3,996
Employee redundancy cost		(290)	(1,507)	(290)	(1,507)
Allowance for non-current inventory obsolescence		(165)	(1,872)	(165)	(1,872)
Impairment loss on property, plant and equipment	10(a)	-	(173,378)	-	(173,378)
Impairment loss on investment in associates	11(i)(c)	(160)	-	-	-
Share of loss from associates	11(i)(c)	(22)	(14)	-	-
Loss before income tax		**(36,624)**	**(198,009)**	**(36,440)**	**(197,993)**
Income tax benefit	8(b)	-	22,944	-	22,944
Loss for the year		**(36,624)**	**(175,065)**	**(36,440)**	**(175,049)**
Other comprehensive income		-	-	-	-
Total comprehensive income for the year		**(36,624)**	**(175,065)**	**(36,440)**	**(175,049)**
Earnings / (loss) per share					
Basic loss and diluted loss per share (expressed in dollars per share)	9	(0.82)	(3.94)		

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF FINANCIAL POSITION

AS AT 31 MAY 2011

	Notes	Consolidated		Holding Company	
		2011	2010	2011	2010
ASSETS		$'000	$'000	$'000	$'000
Non-current assets					
Property, plant and equipment	10	90,598	95,527	90,598	95,527
Available-for-sale financial assets	11(i)	-	699	12	12
Held to maturity investments	11(ii)	2,500	-	2,500	-
Inventories	12	6,973	7,191	6,973	7,191
Trade and other receivables	13	2,941	5,882	2,941	5,882
Total non-current assets		103,012	109,299	103,024	108,612
Current assets					
Available-for-sale financial assets	11(i)	517	-	-	-
Held to maturity investments	11(ii)	108	82	25	-
Inventories	12	12,671	9,479	12,671	9,479
Trade and other receivables	13	26,442	14,048	26,363	13,969
Current tax assets		306	224	305	223
Cash and bank balances		5,641	7,213	5,562	7,134
Total current assets		45,685	31,046	44,926	30,805
Total assets		148,697	140,345	147,950	139,417
EQUITY AND LIABILITIES					
Capital and reserves					
Issued capital	15	22,200	22,200	22,200	22,200
Accumulated losses		(122,860)	(86,236)	(124,253)	(87,813)
Total equity		(100,660)	(64,036)	(102,053)	(65,613)
Non-current liabilities					
Borrowings	16	105,067	118,583	105,067	118,583
Deferred income	17	930	966	930	966
Provisions	18	1,820	1,926	1,820	1,926
Total non-current liabilities		107,817	121,475	107,817	121,475
Current liabilities					
Borrowings	16	113,255	62,336	113,901	62,985
Provisions	18	3,087	2,649	3,087	2,649
Trade and other payables	19	25,198	17,921	25,198	17,921
Total current liabilities		141,540	82,906	142,186	83,555
Total equity and liabilities		148,697	140,345	147,950	139,417

The above statement of financial position should be read in conjunction with the accompanying notes.

These financial statements have been approved by a resolution of the Board of Directors. For and on behalf of the Board.

.... Director

.... Director

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MAY 2011

	Issued Capital	Accumulated Losses	Total
Consolidated	**$'000**	**$'000**	**$'000**
Balance at 1 June 2009	22,200	88,829	111,029
Loss for the year	-	(175,065)	(175,065)
Other comprehensive income	-	-	-
Balance at 31 May 2010	22,200	**(86,236)**	**(64,036)**
Loss for the year	-	(36,624)	(36,624)
Other comprehensive income	-	-	-
Balance at 31 May 2011	22,200	(122,860)	(100,660)
Holding Company			
Balance at 1 June 2009	22,200	87,236	109,436
Loss for the year	-	(175,049)	(175,049)
Other comprehensive income	-	-	-
Balance at 31 May 2010	22,200	(87,813)	(65,613)
Loss for the year	-	(36,440)	(36,440)
Other comprehensive income	-	-	-
Balance at 31 May 2011	22,200	(124,253)	(102,053)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 MAY 2011

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash flows from operating activities				
Receipts from customers and other operating activities	126,089	196,245	126,089	196,245
Payments to suppliers, employees and other operating activities	(153,955)	(213,409)	(153,952)	(213,406)
Cash used in operations	(27,866)	(17,164)	(27,863)	(17,161)
Dividends received	-	79	-	-
Finance income received	183	500	182	499
Finance cost paid	(5,231)	(6,448)	(5,231)	(6,448)
Income tax paid	-	(2)	-	-
Net cash flows used in operating activities	(32,914)	(23,035)	(32,912)	(23,110)
Cash flows from investing activities				
Payments for property, plant and equipment	(14,466)	(24,552)	(14,466)	(24,552)
Proceeds from sale of property, plant and equipment	250	47	250	47
Payments for term deposit investments`	(2,500)	-	(2,500)	-
Net cash flows used in investing activities	(16,716)	(24,505)	(16,716)	(24,505)
Cash flows from financing activities				
Proceeds from borrowings	79,416	88,563	79,416	88,563
Repayment of borrowings	(29,886)	(33,655)	(29,886)	(33,655)
Repayment of advances from subsidiary entity	-	-	(3)	(4)
Net cash flows provided by financing activities	49,530	54,908	49,527	54,904
Net increase / (decrease) in cash and cash equivalents	(100)	7,368	(101)	7,289
Cash and cash equivalents at the beginning of the financial year	5,849	(1,519)	5,688	(1,601)
Cash and cash equivalents at the end of the financial year (Note 14)	5,749	5,849	5,587	5,688

The above statement of cash flow should be read in conjunction with the accompanying notes.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

1. GENERAL INFORMATION

The Fiji Sugar Corporation Limited (the "Corporation") is a limited liability company incorporated and domiciled in Fiji.

Principal activities of the Corporation are milling of sugarcane in Fiji and the sale of sugar and molasses produced.

The address of its registered office and principal place of business is at 3rd floor, Western House, Lautoka.

Subsidiary companies

Principal activities of subsidiary companies are as follows:

FSC Projects Limited - equity investments.

FSC Services Pty Limited - this company ceased operations from May 2006.

Pacific Cogeneration Limited - production of electrical power plant and to generate electricity and develop electrical power facilities and to supply and sell electricity. The company has yet to commence operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with the Companies Act, 1983 and International Financial Reporting Standards ('IFRS') as required by the Fiji Institute of Accountants.

The principal accounting policies adopted by the Corporation and the Group are stated to assist in a general understanding of these financial statements. These policies have been consistently applied by the Group companies except as otherwise indicated.

Basis of accounting - Going concern

The financial statements have been prepared on a going concern basis on the assumption that the Corporation will continue to receive financial support and ongoing support from the Government of the Republic of Fiji, the Corporation's debt will be restructured with additional equity and /or funding provided by the Government, the Corporation will achieve improvements in mill efficiency and mill performance together with improved cane supply and thereby generate adequate profit and cash flows from future operations to meet its obligations as and when they fall due. The directors believe that with the financial and other support of the Government, the Corporation and the Group entities will be able to continue in operation for at least 12 months from the date of this statement and the classification and carrying amounts of assets and liabilities as stated in these accounts are appropriate.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might become necessary should the Corporation and the Group be unable to continue as a going concern.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation

The financial statements of the Corporation and the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, as adjusted by the revaluation increments of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

In the application of IFRS, Management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Judgments made by Management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the future periods are disclosed, where applicable, in the relevant notes to the financial statements.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are critical to the financial statements are disclosed in Note 4.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

2.2 Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprises the Group. A list of subsidiaries and associates appears in Note 11 to the financial statements.

Accounting for Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost or acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Basis of consolidation (Cont'd)

Inter-company transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investment in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When an investment ceases to be an associate, the fair value of the investment at the date when it ceases to be an associate is regarded as its carrying value on initial recognition as a financial asset.

Gains and losses on disposals of investments in associates are determined by comparing the proceeds with the carrying amount and are taken into account in determining the results for the year.

2.3 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

2.4 Borrowing costs

The borrowing costs that are directly attributable to the acquisition of the qualifying capital assets are capitalized until substantially all the activities necessary to prepare the capital assets for its intended use or sale are complete. Other borrowing costs are recognised as an expense in the year in which they are incurred.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Cash and cash equivalents

For the purpose of statement of cash flow, cash and cash equivalents include cash on hand, deposits held at call with banks, and net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

2.6 Comparatives

Where necessary, amounts relating to prior years have been reclassified to facilitate comparison and achieve consistency in disclosure with current year amounts.

2.7 Dividend income

Dividends on available-for-sale equity instruments other than equity investments in associate companies are recognised in the statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Dividends received from associate companies are adjusted against the carrying value of the investments in associate companies by virtue of applying the equity method of accounting for investments in associates.

2.8 Earnings per share

(a) Basic earnings per share

Basic earnings per share (EPS) is determined by dividing net profit after income tax attributable to members of the holding company by the weighted average number of ordinary shares outstanding during the year.

(b) Diluted earnings per share

Diluted EPS is the same as the basic EPS as there are no ordinary shares which are considered dilutive.

2.9 Employee benefits

Wages and salaries

Liabilities for wages and salaries expected to be settled within 12 months of the reporting date are accrued up to the reporting date.

Annual leave and sick leave

The liability for annual leave and sick leave are recognized in the provision for employee benefits. These benefits are expected to be settled within 12 months and are measured at their nominal values using the remuneration rate expected to apply at the time of the settlement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Employee benefits (Cont'd)

Long service leave

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

Terminal benefits

The Group recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made for redundancy. Benefits falling due more than 12 months after the statement of financial position date are disclosed at the present value.

Defined contribution plans

Contributions to Fiji National Provident Fund are expensed when incurred.

2.10 Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' disclosed in the statement of financial position (Note 13). Bad debts are written off during the period in which they are identified.

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's Management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are measured at subsequent reporting dates at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 Financial assets (Cont'd)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of the investment within 12 months of the reporting date.

Equity investments in associate companies not held for trading are classified under this category.

Investments in subsidiaries are classified as available-for-sale investments and are accounted for at cost in the individual financial statements of the Corporation.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income.

2.11 Foreign currency translation

(a) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity. The consolidated financial statements are presented in Fijian currency, which is the measurement currency of the parent entity.

(b) Transaction and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Amount payable and receivable in foreign currencies at balance date are converted at rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

(c) Group companies

Statement of comprehensive income and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their statement of financial positions are translated at the exchange rates ruling on 31 May 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants whose primary condition is that the Group should purchase, construct or other wise acquire non-current assets are recognized as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognized as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related cost are recognized in profit or loss in the period in which they become receivable.

2.13 Impairment of non-financial assets

At each statement of financial position date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future 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.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MAY 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences and the eligible tax losses can be utilised.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

2.15 Inventories

Sugar and molasses are valued at net realisable value. Net realisable value is determined by approved selling prices, contracts or free market prices and is net of expected related marketing, selling and distribution costs.

Spares are stated at cost. Costs are assigned to spares using the weighted average basis and comprise all costs incurred in bringing the stocks to their present location and condition. Allowances for spare parts inventory obsolescence are raised based on a review of inventories. Inventories considered obsolete or un-serviceable are written off in the year in which they are identified.

2.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

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FOR THE YEAR ENDED 31 MAY 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.17 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition and installation of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Cost of leasehold land includes initial premium payment or price paid to acquire leasehold land including acquisition costs.

Freehold land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and improvements	2% to 10%
Plant, machinery and equipment	3% to 25%
Vehicles and transport systems	15% and 20%

Leasehold land is amortised over the term of the applicable lease. New assets are depreciated from the commencement of the half-year in which they are commissioned.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are taken into account in determining the results for the year.

Capital works in progress principally relates to costs and expenses incurred for capital works in the nature of property, plant and equipment. Capital work in progress is stated at historical cost and is not depreciated.

Interest and other incidental costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use.

Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that recovery will be received and the amount of receivable can be measured reliably.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of Value Added Tax, returns, rebates, brokerage, marketing fees, duties, taxes paid and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Finance income

Finance income is recognised on a time-proportion basis using the effective interest method.

2.20 Segment reporting

An operating segment is a group of assets and operations engaged in providing product or services that are subject to risks and returns and that have similar economic characteristics.

For reporting purposes, the Group considers itself to be operating in one business segment as its predominant revenue sources is from sugar milling. Revenue from other sources are not material for the purposes of segment reporting. In addition, the Group operates in Fiji only and hence one geographical segment for reporting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.21 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Provision is raised on a specific debtor level as well as on a collective basis. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments are considered indicators that a specific debtor balance is impaired. Impairment assessed at a collective level is based on past experience and data in relation to actual write-offs. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off are credited in the statement of comprehensive income.

2.22 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.23 Trade payables

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.24 Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of Value Added Tax (VAT), except:

i) where the amount of VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii) for receivables and payables which are recognised inclusive of VAT.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

The VAT component of cash flows arising from operating and investing activities which is recoverable from or payable to, the taxation authority is classified as operating cash flows.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by executive management. Executive management identifies, evaluates and monitors financial risks in close co-operation with the operating units.

(a) Market risk

(i) Foreign exchange risk

The Group undertakes transactions denominated in foreign currencies. Consequently, exposures to exchange rate fluctuation arise. Exchange rate exposures are managed within approved policy parameters.

The carrying amount of the Group's foreign currency denominated monetary assets and liabilities at the end of reporting period are as follows:

	2011	2010
	$'000	$'000
Liabilities		
Australian Dollar	409	363
New Zealand Dollar	7	29
US Dollar	70,658	84,233
Assets		
US Dollar	431	-
Europe Euro	5,245	-

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of USA, Europe, New Zealand and Australia.

The following table details the Group's sensitivity to a 10% increase and decrease in Fiji dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. If the FJD strengthen/weaken by 10% against the AUD, NZD, USD and EUR, with all other variables held constant, pre- tax profit impact is as follows:

	Profit / (Loss)			
	Strengthen		Weaken	
	2011 F$ 000	2010 F$ 000	2011 F$ 000	2010 F$ 000
Australian Dollar – AUD	37	33	(45)	(40)
Europe Euro – EUR	(477)	-	583	-
New Zealand Dollar – NZD	1	3	(1)	(3)
US Dollar – USD	6,384	7,658	(7,803)	(9,359)

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (Cont'd)

(ii) Price risk

The Group is exposed to world sugar price for sugar exports to European Union. The Corporation has commenced undertaking the necessary re-structuring and significantly completed the mill modernization and upgrade to achieve production efficiency and thereby maintaining profits.

The Group does not have investments in equity securities quoted on stock exchange and hence is not exposed to equity securities price risk.

(iii) Regulatory risk

The Group's profitability can be significantly impacted by regulatory agencies established which governs the Sugar Industry in Fiji and the ongoing and proposed reforms in the Fiji Sugar Industry.

In addition, the Group's profitability is also significantly impacted by the Reform of the European Union Sugar Regime as the Corporation sells most of its sugar to the EU. The EU and the ACP have negotiated market access arrangements specific to sugar under the new regional Economic Partnership Agreements (EPA) to apply from 1 October 2009 until 30 September 2015.

The salaries and wages payable to workers are subject to relevant wages regulations and employment legislation.

(iv) Cane supply risk

The Group's profitability is largely dependent on the cane supply by growers. Sensitivity on the impact of 10% change in cane production on the gross loss from proceeds of sugar and molasses is shown below:

	Gross Loss ($ million)		
Cane supply for the year 2011 (000t)	For the year ended 31 May 2011	Effect of cane supply increase by 10%	Effect of cane supply decrease by 10%
1,780	32.3	28.5	35.8

(v) Cash flow and fair value interest rate risk

As at year end, the Group has insignificant interest-bearing assets in the form of short-term deposits. These are at fixed interest rates and hence there are no interest rate risks during the period of investment. Given the fixed nature of interest rates described above, the Group has a high level of certainty over the impact on cash flows arising from interest income.

The Group also has significant interest-bearing borrowings denominated in foreign currency from Export Import Bank of India. These are at floating rates based on "US Dollar London Inter Bank Offered Rate (LIBOR)", and accordingly are exposed to interest rate risk.

In relation to borrowings from Government of Fiji, Fiji National Provident Fund, Reserve Bank of Fiji, Yasana Holdings Ltd, and Bank of South Pacific, the group is not exposed to interest rate risk as it borrows funds at fixed interest rates. However, the Group is exposed to market interest at the time of the rollover of borrowings or refinancing of borrowings.

The interest rate risks and exposures are being closely monitored by the Executive Management Group and the Directors within the approved parameters.

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3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (Cont'd)

(b) Credit risk

Credit risk is managed at Group and at individual entity level. Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to wholesale and retail customers, including outstanding receivables. For banks, only reputable parties with known sound financial standing are accepted. The credit risks arising on account of receivables is moderate as the arrangement for the sugar and molasses sales to the EU and other ACP States are under long term agreement and protocol (Refer Regulatory Risk above).

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to ensure availability of funding. The Group monitors liquidity through rolling forecasts of the Group's cash flow position.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
At 31 May 2011	**$'000**	**$'000**	**$'000**	**$'000**
Short term borrowings	106,983	-	-	-
Long term loans and bonds	4,201	4,201	32,500	-
Export Import Bank of India	2,071	6,296	37,704	24,366
Trade and other payables	25,198	-	-	-
	138,453	10,497	70,204	24,366
At 31 May 2010				
Short term borrowings	56,020	-	-	-
Long term loans and bonds	-	4,201	36,702	-
Export Import Bank of India	6,316	10,219	36,488	30,973
Trade and other payables	17,921	-	-	-
	80,257	14,420	73,190	30,973

The Corporation is facing cash flow constraints and has sought assistance from the Government by way of equity funding and restructuring of debt, together with other support and assistance. In this regard, the Government has set a Sugar Taskforce for restructuring the Corporation's debt and to assess the level of financial support required by the Corporation.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and noncurrent borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents and short term deposits. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios at 31 May 2011 and 2010 were as follows:

	2011	2010
	$'000	$'000
Total borrowings (Note 16)	218,322	180,919
Less: Cash on hand and at bank	(5,641)	(7,213)
Less: Term deposits and cyclone reserve deposit	(2,608)	(82)
Net debt	210,073	173,624
Total equity	(100,660)	(64,036)
Total capital (total equity plus net debt)	109,413	109,588
Gearing ratio (net debt / total capital x 100)	209%	158%

The gearing ratio during 2011 deteriorated significantly resulting from significant losses from the operations, increased borrowings in relation to the mill upgrade and mill modernisation program, other short term borrowings to meet the working capital requirements and borrowings to fund the losses.

3.3 Fair value estimation

The carrying value less impairment provision of trade receivables is assumed to approximate their fair values. The carrying values of financial liabilities are estimated to approximate their fair values.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the application of the Corporation's and the Group's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The critical judgements, apart from those involving estimations, that the directors have made in the process of applying the Corporation's and the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are as follows:

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial.

(a) Impairment of property, plant and equipment

The Group assesses whether there are any indicators of impairment of all property, plant and equipment at each reporting date. Property, plant and equipment are tested for impairment and when there are indicators that the carrying amount may not be recoverable, reasonable provision for impairment are created.

For the year ended 31 May 2011, an independent impairment review of the assets of the Corporation was carried out by an independent consultant from New Zealand. The impairment assessment was undertaken in accordance with International Accounting Standards 36 "Impairment of Assets". The recoverable amount of the relevant assets has been determined on the basis of their value in use. The value in use has been determined based on discounted cash flow assessment covering 10 years from 2012 to 2021 based on a scenario with cane volumes of 2.15 million tonnes for 2012 and increasing to 3.25 million tonnes in 2016, and estimated terminal value. The discount rate of 10.5% has been used in measuring value in use. In making financial forecasts, the Management has relied on technical experts wherever deemed appropriate, including the areas of marketing and engineering aspects of operations.

The future cash flow is dependent on key variables and some of the critical variables such as sugar price, exchange rate, cane volumes and POCS (pure obtainable cane sugar) ratio which are outside the control of the Corporation. Furthermore, variables such as mill uptime (including its impact on TCTS), crushing rate, level of operating costs and mill stoppages are critically dependent on the performance and efficiency of the mill.

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FOR THE YEAR ENDED 31 MAY 2011

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

(a) Impairment of property, plant and equipment (Cont'd)

The Management's assessment of cash flow forecast involves making a judgment, at the particular point in time, about inherently uncertain future outcomes of events or conditions. Accordingly, subsequent events may result in outcomes that are significantly different from assessment.

(b) Allowances for stock obsolescence

Allowances for stock obsolescence is assessed and raised on a specific and collective basis based on a review of inventories, including the status of inventories by the engineering team of the Corporation. Inventories considered obsolete or un-serviceable are written off in the year in which they are identified.

(c) Impairment of accounts receivable

Impairment of accounts receivable balances is assessed at an individual as well as on a collective level. At a collective level all debtors outstanding for more than three months are considered to be impaired, and are provided for based on assessment of the balances.

(d) Fair value of equity instruments

Management uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each reporting date. Given that the entities subject to these investments are primarily subsidiaries of the holding company, the fair value of the equity instruments is estimated to assume their carrying values.

(e) Deferred income tax assets

Deferred income tax assets are recognized for all unused tax losses and benefits arising from temporary differences to the extent that taxable profits will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely and level of future taxable profits together with future planning strategies. The deferred income tax asset relating to tax losses and temporary differences have not been brought to account as in the opinion of the Management its realization is not considered to be probable. Further details are contained in Note 8(d).

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

5. LOSS FROM OPERATIONS

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loss from operations have been arrived at after crediting the following items:				
Amortisation of government grants (Note 17)	36	36	36	36
Creditors and payables written back	401	105	401	105
Gain on sale of plant and equipment	195	41	194	41
Proceeds from liquidation of Fiji Sugar Marketing	555	-	555	-
Loss from operations have been arrived after charging / (crediting) the following expenses:				
Auditors' remuneration for:				
- Audit services	66	66	64	64
- Other services	5	5	5	5
Bad debts written off	34	110	34	110
Depreciation and amortisation:				
- Leasehold land, building and improvements	1,630	1,626	1,630	1,626
- Plant, machinery and equipment	15,205	9,856	15,205	9,856
- Motor vehicles and transport systems	1,262	1,490	1,262	1,490
Directors' emoluments for:				
- Services as directors	53	56	53	56
- Other services	103	60	103	60
Impairment loss on receivables	137	75	137	75
Provision for litigation claims	15	(83)	15	(83)
Staff costs (Note 7)	27,090	32,242	27,090	32,242

6. FINANCE INCOME AND COSTS

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
FINANCE INCOME				
Interest income	274	724	273	723
FINANCE COSTS				
Finance expense:				
- Secured borrowings	(9,793)	(6,485)	(9,793)	(6,485)
- Others	(87)	(109)	(87)	(109)
Total finance cost	(9,880)	(6,594)	(9,880)	(6,594)

7. STAFF COSTS

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Wages and salaries	25,056	30,495	25,056	30,495
FNPF contribution	2,545	3,092	2,545	3,092
Other employee benefits	272	279	272	279
	27,873	33,866	27,873	33,866
Less: staff costs for capital works	(1,071)	(1,426)	(1,071)	(1,426)
	26,802	32,440	26,802	32,440
Provisions for employee benefits, net movement	288	(198)	288	(198)
Total staff costs	27,090	32,242	27,090	32,242
Number of permanent employees as at balance date. This increases by approximately 850 employees during the crushing period.	1,148	1,344	1,148	1,344

8. INCOME TAX

(a) Income tax benefit

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Deferred income tax	-	22,562	-	22,562
Over provision in prior years	-	382	-	382
Income tax benefit	-	22,944	-	22,944

(b) Income tax benefit

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Loss before income tax expense	(36,624)	(198,009)	(36,440)	(197,993)
Tax benefit at the rate of 28% (2010: 29%)	10,255	57,423	10,203	57,418
Tax effect of:				
Non-deductible expenses	(126)	(258)	(119)	(253)
Unrealised exchange gain, net	3,050	1,159	3,050	1,159
Amortisation of government grant	10	10	10	10
Impairment loss on investment in associate	(45)	-	-	-
Deferred income tax asset not recognized, net of unrecognized deferred tax liabilities	(13,144)	(58,334)	(13,144)	(58,334)
Deferred income tax written back	-	22,562	-	22,562
Over provision in prior years	-	382	-	382
Income tax benefit	-	22,944	-	22,944

8. INCOME TAX (CONT'D)

(c) Deferred income tax

Deferred income tax liability of $22.6 million had been written back during year ended 31 May 2010 subsequent to impairment of property, plant and equipment and given that deferred income tax assets arising on impairment was not recognized. Further, deferred tax liability of $555,656 in respect of unrealized gain on stock of sugar and molasses as at 31 May 2011 has not been recognized in view of significant unrecognized deferred tax assets relating to tax losses and other temporary differences.

(d) Deferred Tax Assets Not Recognised

The deferred tax assets relating to estimated tax losses and temporary differences amounting to approximately $70.2 million (2010: $49.3 million) have not been brought to account as its realization is not considered to be probable. The deferred tax asset will only be realized if:

(i) the Corporation derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realized;

(ii) the Corporation continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) no changes in the tax legislation adversely affect the Corporation and the Group in realizing the benefit from the deductions for the loss.

9. EARNINGS (LOSS) PER SHARE

(a) Basic

Basic earnings (loss) per share is calculated by dividing the net loss attributed to equity holdings of the Corporation by the weighted average number of ordinary shares in issue during the year.

	Consolidated	
	2011	**2010**
	$	**$**
Loss attributable to shareholders	(36,624,082)	(175,064,554)
Weighted average number of ordinary shares in issue (nos.)	44,399,998	44,399,998
Basic loss per share (dollar per share)	(0.82)	(3.94)

(b) Diluted

Diluted loss per share is same as basic loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

Consolidated and Holding Company	Freehold Land	Leasehold Land	Buildings and Improvements	Plant, Machinery and Equipment	Vehicles and Transport Systems	Capital Work In Progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 31 May 2011							
Cost	21,904	189	69,118	372,159	42,714	16,855	522,939
Accumulated depreciation	-	(29)	(19,662)	(203,324)	(34,441)	-	(257,456)
Accumulated impairment losses	-	-	(36,174)	(132,354)	(6,357)	-	(174,885)
Balance as at 31 May 2011	**21,904**	**160**	**13,282**	**36,481**	**1,916**	**16,855**	**90,598**
At 31 May 2010							
Cost	21,904	159	67,510	368,941	42,054	19,954	520,522
Accumulated depreciation	-	(28)	(18,055)	(198,253)	(33,774)	-	(250,110)
Accumulated impairment losses	-	-	(36,174)	(132,354)	(6,357)	-	(174,885)
Balance as at 31 May 2010	**21,904**	**131**	**13,281**	**38,334**	**1,923**	**19,954**	**95,527**

Note 10(a)

During year ended 31 May 2010, an independent impairment review of the assets of the Corporation was carried out by an independent consultant from New Zealand. Based on the independent assessment, the Management had carried out an assessment of the value in use of property, plant and equipment, and had recognized impairment loss amounting to $173.4 million and allocated on a pro-rata basis to buildings and improvements, plant, machinery and equipment, vehicles and transport systems.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Consolidated and Holding Company

Note 10(a) (Cont'd)

For the year ended 31 May 2011, an independent impairment review of the assets of the Corporation was carried out by an independent consultant from New Zealand. The impairment assessment was undertaken in accordance with International Accounting Standards 36 "Impairment of Assets". The recoverable amount of the relevant assets has been determined on the basis of their value in use. (Refer note 4(a)). Based on the independent assessment, the Management has assessed that there is no indication of any further impairment in asset values as at 31 May 2011.

The Corporation has further carried out sensitivity analysis of assessment of recoverable amount as at 31 May 2011 with the following assumptions:

- Terminal growth rate - ± 2%
- Discount rate - ± 1%
- Exchange rate - ± 5%
- Expenditure - ± 5%
- World market price - ± US$0.01
- Cane production - ± 5%

Refer Note 4 (a) in relation to critical accounting estimates and judgments, and significant uncertainty in relation to impairment of property, plant and equipment.

Note 10(b)

Capital work in progress principally relates to costs and expenses incurred for mill upgrades, mill modernization and other capital nature work on property, plant and equipment. Capital work in progress is not depreciated. During the year, borrowing costs of $Nil (2010: $116,696) were capitalised to capital work in progress.

Note 10(c)

In prior years, land and buildings were revalued based on the valuation carried out by independent registered valuers, Rolle Hillier Parker of Suva, Fiji in July 2002. Upon adoption of IFRS (effectively from, 1 June 2006), the Corporation had elected the option provided under IFRS 1 to apply the cost model (deemed cost) for land and buildings previously revalued, and accordingly, the cost value of land and buildings include revaluation increments amounting to $54,375,740.

10. PROPERTY, PLANT AND EQUIPMENT

Consolidated and Holding Company

Note 10(d)

Property, plant and equipment of the Corporation are not insured for various risks including risk of losses arising from fire, cyclone, flooding, business interruption and others as the cost of insurance cover is significant. Vehicles are insured under comprehensive insurance cover.

Note 10 (e)

Reconciliation of carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are as follows:

	Freehold Land	Leasehold Land	Buildings and Improvements	Plant, Machinery and Equipment	Vehicles and Transport Systems	Capital Work In Progress	Total 2011	Total 2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance as at 1 June	21,904	131	13,281	38,334	1,923	19,954	95,527	261,477
Additions	-	-	-	2,327	-	11,627	13,954	21,266
Transfer from CWIP	-	30	1,650	11,450	1,309	(14,439)	-	-
Disposals / write off	-	-	(20)	(425)	(54)	(287)	(786)	(866)
Impairment losses (Note 10(a))	-	-	-	-	-	-	-	(173,378)
Depreciation (Note 5)	-	(1)	(1,629)	(15,205)	(1,262)	-	(18,097)	(12,972)
Balance as at 31 May	21,904	160	13,282	36,481	1,916	16,855	90,598	95,527

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

11(i). AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Subsidiary companies				
Shares in subsidiary companies, at cost	-	-	12	12
Associate companies				
Equity accounted investments in associate company				
- Current assets	517	-	-	-
- Non-current assets	-	699	-	-
Total available-for-sale financial assets	517	699	12	12

At the board meeting held on 30 March 2011, the directors resolved to sell shares in Agchem Ltd, an associate company. Accordingly, available for sale financial assets are disclosed under current assets in the statement of financial position. Further, based on the expected realizable value, an impairment loss of $160,000 has been recognized during the year in the consolidated financial statements.

(a) Investments in subsidiaries

Name of Company	Place of Incorporation	Contribution to Group Results		Book Value of Holding Company Investments (Ordinary shares)		% Shareholding	
		2011	2010	2011	2010	2011	2010
		$	$	$	$	%	%
Unlisted							
FSC Projects Ltd	Fiji	(184,208)	(15,262)	100	100	100	100
FSC Services Pty Ltd	Australia	-	-	11,875	11,875	100	100
Pacific Cogeneration Limited	Fiji	-	-	2	2	100	100
		(184,208)	(15,262)	11,977	11,977		

The financial statements of FSC Projects Limited are audited by G. Lal + Co. The financial statements of FSC Services Pty Limited and Pacific Cogeneration Limited have not been audited. Pacific Cogeneration Limited has yet to commence operations, and FSC Services Pty Limited is non-operating.

(b) Investments in associate company

Name of Company	Place of Incorporation	Issued Capital (Ordinary@ $1 par)		Issued to FSC Group (Ordinary @ $1 par)		% Shareholding	
		2011	2010	2011	2010	2011	2010
		$	$	$	$	%	%
Agchem Limited	Fiji	130,000	130,000	51,663	51,663	39.74	39.74

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

11(i). AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONT'D)

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(c) Movement in carrying amount of associate company				
Opening balance	699	792	-	-
Share of profit / (loss) from associates	(21)	16	-	-
Over accrual of share of income in prior year	(1)	(30)	-	-
Dividends received / receivable	-	(79)	-	-
Share of investment in associate	677	699	-	-
Less: provision for impairment loss	(160)	-	-	-
	517	699	-	-
(d) Summarised financial information in respect of the Group's associates is set out below				
Total assets	2,330	2,380	-	-
Total liabilities	(627)	(621)	-	-
Net assets	**1,703**	**1,759**	**-**	**-**
Group's share of net assets of associates	677	699	-	-
Total revenue	2,000	2,173	-	-
Total profit /(loss) for the period	(53)	41	-	-
Group's share of profit /(loss) of associates	(21)	16	-	-

11(ii). HELD TO MATURITY INVESTMENTS

Non-Current				
Cyclone reserve deposit	2,500	-	2,500	-
Current				
Short-term deposit investments	108	82	25	-

12. INVENTORIES

Non-Current				
Capital spare parts and spare gears	10,954	11,007	10,954	11,007
Deduct: Allowance for inventory Obsolescence	(3,981)	(3,816)	(3,981)	(3,816)
Total non-current inventories, net	6,973	7,191	6,973	7,191
Current				
Sugar and molasses	6,603	1,754	6,603	1,754
Maintenance spares and consumables	5,234	7,672	5,234	7,672
Goods in transit	834	53	834	53
Total current inventories	12,671	9,479	12,671	9,479

Sugar and molasses have been valued based on expected net realizable value.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

13. TRADE AND OTHER RECEIVABLES

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Non-Current				
Advance to cane growers (a)	2,941	5,882	2,941	5,882
Total non-current trade and other receivables	2,941	5,882	2,941	5,882
Current				
Trade receivables	5,651	-	5,651	-
Dividend receivable from associate company	79	79	-	-
Receivable from liquidation of Fiji Sugar marketing	926	-	926	-
VAT receivable	4,491	5,440	4,491	5,440
Growers advance	2,151	1,743	2,151	1,743
Advance to cane growers (a)	2,941	-	2,941	-
Receivable from Sugar Research Institute of Fiji	2,840	2,121	2,840	2,121
Recoverable expenses from contractors	1,595	1,016	1,595	1,016
Other receivables	1,033	1,503	1,033	1,503
	21,707	11,902	21,628	11,823
Less: Impairment loss	(137)	(126)	(137)	(126)
	21,570	11,776	21,491	11,697
Prepayments and deposits	4,872	2,272	4,872	2,272
Total current trade and other receivables, net	26,442	14,048	26,363	13,969

(a) Advance to Cane Growers – Supplementary cane payment

During year ended 31 May 2010, the Corporation paid $8,402,397 as a supplementary cane payment. The entire payment was funded by way of a term finance from Sugar Cane Growers Fund (refer note16). The interest cost in respect to the short term finance will be met by the Government. The Corporation's share of 30% amounting to $2,520,719 was accounted as cost of sales in the statement of comprehensive income for the year ended 31 May 2010. The balance 70% is to be recovered by the Corporation from proceeds due to cane growers during the 2011 ($2,940,839) and 2012 ($2,940,839) season. Accordingly, the balance amounting to $5,881,678 recoverable from cane growers has been disclosed as receivables under advance to cane growers.

The carrying value of trade and other receivables and receivables from related parties are considered to be their reasonable approximation of their fair values. Movements on the provision for impairment of trade and other receivables are as follows:

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Opening balance	126	374	126	374
Impairment loss on receivables (Note 5)	137	75	137	75
Amounts written off during the year	(126)	(323)	(126)	(323)
Closing balance	137	126	137	126

14. NOTES TO THE STATEMENT OF CASH FLOW

Cash and cash equivalents

For the purpose of the statement of cash flow, the cash and cash equivalents comprise of the following:

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash and bank balances	5,641	7,213	5,562	7,134
Short term deposits	108	82	25	-
Bank overdraft	-	(1,446)	-	(1,446)
Total cash and cash equivalents, net	5,749	5,849	5,587	5,688

15. SHARE CAPITAL

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Authorised capital				
160,000,000 ordinary shares of 50 cents each	80,000	80,000	80,000	80,000
Issued capital				
44,399,998 ordinary shares of 50 cents each	22,200	22,200	22,200	22,200

16. BORROWINGS

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Non-current				
Export Import Bank of India (a)	68,366	77,680	68,366	77,680
Fiji National Provident Fund (e)	10,000	10,000	10,000	10,000
Reserve Bank of Fiji (d)	22,500	22,500	22,500	22,500
Advance from Sugar Cane Growers Fund (c)	4,201	8,403	4,201	8,403
	105,067	118,583	105,067	118,583
Current				
Export Import Bank of India (a)	2,071	6,316	2,071	6,316
Bank overdraft – Westpac Bank (b)	-	1,446	-	1,446
Advance from Sugar Cane Growers Fund (c)	1,222	-	1,222	-
Advance from Sugar Cane Growers Fund (c)	4,201	-	4,201	-
Fiji National Provident Fund (e)	29,300	34,044	29,300	34,044
Advances from subsidiaries (g)	-	-	646	649
Bank of Baroda	-	19,094	-	19,094
Bank of South Pacific (f)	3,814	1,436	3,814	1,436
Yasana Holdings Limited (h)	286	-	286	-
Government of Fiji (i)	72,361	-	72,361	-
Total current borrowings	113,255	62,336	113,901	62,985
Total borrowings	218,322	180,919	218,968	181,568

16. BORROWINGS (CONT'D)

Particulars relating to borrowings:

(a) Borrowings – Export Import Bank of India

The Corporation has entered into a contract with the Export Import Bank of India on 7 November 2005 by way of Dollar Line of Credit of US$50.4 million for the upgrade of its sugar mills. The loan is secured by the Government guarantee and the principal amount is repayable in successive half yearly equal installments over a ten year period with an initial moratorium of 2 years, which was subsequently extended to 5 years. Interest is payable at the rate of London Inter Bank Offered Rate (LIBOR) plus 0.5%. Interest paid and / or accrued for the year ended 31 May 2011 has been expensed as the sugar mills upgrade and modernization project has been substantially completed.

(b) Bank Overdraft – Westpac Bank

There was no bank overdraft facility as at 31 May 2011.

(c) Sugar Cane Growers Fund

During year ended 31 May 2010, the Corporation paid $8,402,397 as a supplementary cane payment. The entire payment was funded by way of a term finance from Sugar Cane Growers Fund. The interest cost in respect to the short term finance will be met by the Government. The Corporation's share of 30% amounting to $2,520,719 was accounted as cost of sales in the statement of comprehensive income for the year ended 31 May 2010. The balance 70% is to be recovered by the Corporation from proceeds due to cane growers during the 2011 and 2012 season. The benefit derived from the Government support has not been recognized as a Government grant in accordance with IAS 20 – Accounting for Government Grant since the Corporation is the facilitator in this supplementary cane payment arrangements to provide benefit to the cane growers.

An additional loan of $1,222,148 was obtained from Sugar Cane Growers Fund on 16 June 2010 to facilitate refund of Fourth Cane payment deductions as per a directive from Government. This borrowing was subject to interest at the rate of 10.1% up to mid August 2010 and thereafter at 3% less than the ANZ Bank's Business Index Rate. The borrowing is being rolled over on a monthly basis and is secured by the Government guarantee.

(d) Reserve Bank of Fiji

The bonds issued by the Corporation to Reserve Bank of Fiji are subject to interest at the rate of 7%- 8% per annum (payable bi-annually) and are secured by the Government guarantee. The bonds are repayable by 5 November 2014.

(e) Fiji National Provident Fund

Current Borrowings

The loan from Fiji National Provident Fund (FNPF) of $29,300,000 was subject to interest at the rate of 12% per annum. This borrowing was secured by the Government guarantee. Subsequent to balance date on 1 June 2011, the loan has been repaid through borrowings from the government.

Non-Current Borrowings

The bond of $10,000,000 issued by the Corporation to FNPF is subject to interest at the rate of 7% per annum (payable bi-annually) and is repayable by 5 November 2014. The bond is secured by the Government guarantee.

16. BORROWINGS (CONT'D)

(f) Bank of South Pacific

The borrowing from Bank of South Pacific is subject to interest at the rate of 9.5% per annum and is repayable by 31 January 2012. The borrowing is by way of promissory note issued by the Corporation, and is secured by the Government guarantee.

(g) Advances from Subsidiaries

(i) Advance from FSC Projects Limited as at balance date amounted to $628,693. The advance is unsecured, interest free and repayable on demand.

(ii) Advance from FSC Services (Pty) Limited as at balance date amounted to $17,277. The advance is unsecured, interest free and repayable on demand.

(h) Yasana Holdings Ltd

The borrowings from Yasana Holdings Ltd are subject to interest at the rate of 9.5% per annum and are repayable by 19 August 2011. The borrowings are by way of promissory note issued by the Corporation, and are secured by the Government guarantee.

(i) Government of Fiji

The borrowings from Government of Fiji aggregated $72,360,930 as at balance date and are subject to interest at the rate of 5% per annum. The borrowings are repayable after one year from the drawdown dates.

The fair value of current borrowings and non-current borrowings equals their carrying amount, as the impact of discounting is not significant.

17. DEFERRED INCOME

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Government grants	1,800	1,800	1,800	1,800
Less: Accumulated amortization	(870)	(834)	(870)	(834)
Deferred income, net	930	966	930	966

The above relates to grant received in relation to the bulk sugar shed which is being amortised on a straight line basis at 2%.

18. PROVISIONS

	Employee entitlements	Litigation claims	Unpaid Rent	Total
	$'000	$'000	$'000	$'000
Consolidated				
As at 1 June 2010	3,917	240	418	4,575
Additional provisions recognised / (paid) during the year , net	288	15	29	332
Carrying amount as at 31 May 2011	4,205	255	447	4,907
Holding Company				
As at 1 June 2010	3,917	240	418	4,575
Additional provisions recognised / (paid) during the year , net	288	15	29	332
Carrying amount as at 31 May 2011	4,205	255	447	4,907

Analysis of total provisions:

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Non-current	1,820	1,926	1,820	1,926
Current	3,087	2,649	3,087	2,649
Total provisions	4,907	4,575	4,907	4,575

Employee entitlements consist of the following:

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Annual and sick leave	2,385	1,991	2,385	1,991
Long service leave	1,820	1,926	1,820	1,926
Total employee entitlements	4,205	3,917	4,205	3,917

Annual Leave

Generally, annual leave is taken within one year of entitlement and accordingly, it is expected that a significant portion of the total annual leave balance will be utilised within the next financial year.

Long service leave and retirement benefits

Long service leave and retirement benefits are accrued for employees entitled to the same under their terms of employment. Note 2.9 outline the accounting policy and underlying basis for these accruals. As referred to in Note 2.9, the expected future payments are discounted by 5.5%.

19. TRADE AND OTHER PAYABLES

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Trade creditors – Supplies and general	4,814	4,281	4,814	4,281
Trade creditors – Capital project contractors	5,583	6,879	5,583	6,879
Other creditors and accruals	5,658	5,082	5,658	5,082
Growers creditors	2,220	-	2,220	-
Cane access road, ACRP and other grants payable	1,245	638	1,245	638
Interest payable	5,678	1,041	5,678	1,041
Total trade and other payables	25,198	17,921	25,198	17,921

The fair value of trade and other payables equals their carrying amount, as the impact of discounting is not significant.

20. CONTINGENT LIABILITIES

Wage claims and litigations (a)	730	730	730	730
Letters of credit undertakings by the bank (b)	1,033	3,362	1,033	3,362
Guarantees or bonds given by the bank	249	154	249	154
Total contingent liabilities	7,595	11,125	7,595	11,125

(a) Litigations

The Corporation and the workers union are contesting certain matters. The disputes are on matters of principle and interpretation. The matters are still under consideration by the court and the Ministry of Labour. The ultimate outcome cannot be presently determined, accordingly no provision has been made in the financial statements for any liability that may eventuate from these claims.

As at balance date, provision of $255,000 (2010: $240,000) was made in respect of various court actions against the Corporation (Refer Note 18).

The directors believe that claims arising from such actions are not likely to be of material nature based on the advice of the Corporation's solicitors.

(b) Letters of credit

Letters of credit relates to letter of credit issued by Bank of Baroda in favour of various suppliers and engineering entities in relation to the Mill Upgrades Program. On due dates, payments to the suppliers and engineering entities are made from borrowings from Export Import Bank of India (Refer Note 16).

21. GOING CONCERN AND FINANCIAL SUPPORT

The Corporation incurred significant losses during recent years. During the year ended 31 May 2011, the Corporation has incurred loss of $36.4 million (2010: $175.1 million, including impairment losses of $173.4 million). Furthermore, the Corporation has generated negative cash flows from operations for the year ended 31 May 2011 and 31 May 2010.

As at 31 May 2011, total liabilities of the Corporation exceed total assets resulting in net liability of $102 million. The current liabilities exceed the current assets by $97.2 million, representing the ratio of 3.16: 1 (2010: $52.7 million, representing the ratio of 2.71 : 1).

The Corporation has significant debt repayment commitments amounting to over $114 million during the next twelve months, including $72.4 million repayable to the Government. The Corporation will require significant funding to meet its working capital requirements, capital expenditure and fund the operating losses. Total funding requirements for financial year ending 2012 and 2013 is projected to be around $171.6 million.

The Mill Upgrade Program has been substantially completed during year ended 31 May 2011. The mill upgrade was undertaken to improve plant reliability, sugar extraction, sugar quality, energy efficiency and environmental controls. However, during the financial year ended 31 May 2011, mill efficiency was severely affected by incompatibility between the existing and new machinery. Subsequent to balance date, for the 2011 crush season, the performance of mills has improved as compared to the 2010 season. However, the TCTS (tonne cane crush to tonne sugar) ratio continues to be high and the mill is operating below desired efficiency levels.

Given the financial position and the debt levels of the Corporation and recurring losses being incurred by the Corporation, the business operations will require restructuring of debt and additional equity or funding.

The above factors indicate that the Corporation may not be able to continue as a going concern. Accordingly, the Government is committed to providing the following assistance to bring about the required reforms and improvements:

- In the short and medium term, the Government continues to provide financial and other support to the Corporation and the sugar industry, the Corporation's debt is restructured and additional equity and /or funding provided by the Government to enable the Corporation to meet its commitments and obligations on a timely basis;

- Improvements are achieved in cane supply volumes and quality together with significant improvements in mill efficiency and performance with improved TCTS ratio and reduced mill operating cost.

- Sugar industry reforms are achieved and funding for the sugar industry at large is made available for a long term sustainability and survival of the sugar industry and the Corporation.

The Government as a majority shareholder has made a commitment to support and assist the sugar industry given the importance of the sugar industry for the economy of Fiji. The Government's support to the Corporation is evident by:

- The Government guarantee of $120 million valid until 31 May 2012.
- Funding of $72.4 million provided during the year.
- Funding of $56.5 million provided subsequent to balance date.
- Meeting the finance cost on the advance of $8.4m from the Sugar Cane Growers Fund.

21. GOING CONCERN AND FINANCIAL SUPPORT (CONT'D)

Furthermore:

i) The Government has set a Sugar Taskforce for Financial Restructuring of the Corporation and reforming of the Fiji Sugar industry.

ii) The Government had engaged the consulting firm from New Zealand to undertake an independent review of the Corporation's performance and capital structure to help the Government identify the level of financial support required by the Coporation in the short term and an appropriate capital structure for the Corporation in the medium term together with review of wider industry structure and necessary industry reforms. The Corporation is in the process of implementing some of the recommendations.

iii) Management is making all efforts in consultation with the project engineers and contractors and other independent consultants to bring about efficiency within the upgraded mill plants and machinery at the three larger mills. Training of operators in critical areas of operations is continuing under the guidance of technical experts. It is expected with continuous improvement in this manner, the performance of the upgraded plants will fully integrate with older plant and machinery and it is expected the milling efficiencies will improve to an acceptable level of performance.

iv) Management is undertaking a number of initiatives with Government and the sugar buyers Tate & Lyle of UK to increase cane production.

v) A number of strategies and initiatives have been put in place to reduce costs through rationalization of man power levels, streamlining of business operations, centralization of corporate functions and outsourcing of non-core activities.

The directors consider the application of the going concern principle to be appropriate in the preparation of the financial statements as the directors anticipate the Government will continue to provide necessary financial support and significant improvements will be achieved in cane supply and mill performance and thereby the Corporation and the Group will be able to generate adequate funds to meet their liabilities as and when they fall due.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might become necessary should the Corporation and the Group be unable to continue as a going concern.

22. COMMITMENTS

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(a) Capital commitments				
Capital commitments contracted but not provided for in the accounts	8,945	7,344	8,945	7,344
Capital commitments approved by the directors but not yet contracted	3,662	13,601	3,662	13,601
Total capital commitments	12,607	20,945	12,607	20,945

Mill Upgrade Program

The mill upgrading plan provides for upgrading of the sugar mills to world's best practice has been substantially completed during the year. The principal objective of the mill upgrading works is to improve milling efficiencies, introduce energy conservation measures and produce better quality, Very High Pol (VHP) sugar.

22. COMMITMENTS (CONT'D)

It is anticipated that the remaining plant and equipment will be acquired, installed and commissioned before the end of the next financial year.

(b) Operating lease commitments

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Non-cancelable operating land lease rental commitments are payable as follows:				
Not later than one year	185	193	185	193
Later than one year but not later than five years	602	625	602	625
Later than five years	7,707	7,947	7,707	7,947
Total operating lease commitments	8,494	8,765	8,494	8,765

(c) Commitments for the purchase of cane and for supply of sugar

The Corporation is committed to purchase sugarcane from growers. Furthermore the Corporation is committed to supply sugar to the European Union through Tate & Lyle PLC, UK. Refer Note 23 for further details.

23. COMMITMENTS FOR PURCHASE OF CANE AND COMMITMENTS FOR SUPPLY OF SUGAR IN THE NEXT TWELVE MONTHS

The Corporation purchases cane from growers as required by the Master Award and in accordance with the terms, conditions and procedures set out in the Master Award. The Master Award forms an intergral part of the Sugar Industry Act. Under the Master Award, the growers share 70% of the proceeds for sugar produced up to 325,000 tonnes; 72.5% of the proceeds for sugar produced between 325,000 – 350,000 tonnes and 75% of proceeds for sugar produced in excess of 350,000 tonnes. The sugar proceeds are shared net of industry costs such as marketing, shipping and Sugar Research Institute of Fiji.

During the next twelve months, that is, for the 2011 crushing season, the growers are expected to supply to the Corporation a total of 2.15 million tonnes of cane from which approximately 196,000 tonnes of sugar is expected to be produced. The Corporation is not expected to meet all its supply commitments to the buyers for the next twelve months.

The Corporation sells sugar to the European Union (EU) under the new regional Economic Partnership Agreements (EPA) that has come into effect from 1 October 2009 and is effective until 30 September 2015.

Under the EPA, the minimum regional safeguard threshold for the Pacific Region is 181,570.5 metric tonnes of white sugar equivalent and 190,918.6 metric tonnes of white sugar equivalent for 2009/10 and 2010/11, respectively increasing to 210,950.3 metric tonnes of white sugar equivalent for 2011/12 to 2014/15.

Fiji and Papua New Guinea are the two countries that are under the Pacific Region.

The above are equivalent to about 190,000 metric tonnes raw sugar for 2009/10, 200,000 metric tonnes raw sugar for 2010/11 and about 220,000 metric tonnes raw sugar from 2011/12 and beyond. This is sold to Tate & Lyle PLC in London under a Long Term Agreement which is for 5 years commencing 1 March 2008.

24. RELATED PARTY INFORMATION AND TRANSACTIONS

(a) Ownership interests in related parties

Interests held in subsidiaries and associate companies are set out in Note 11 to the financial statements.

(b) Directors

The names of persons who were directors of the Corporation at any time during the financial year are as follows:

Mr Abdul Khan – Chairman
Mr Marika Gaunavou - Deputy Chairman
Ratu Deve Toganivalu
Mr Gautam Ramswarup – (resigned – 2 Sept 2010)
Mr Viliame Gucake
Ratu Aisea Katonivere
Mr Alipate Qetaki
Mr Dijendra Singh (appointed – 27 Oct 2010)

Directors' emoluments for services as directors and other services are disclosed under Note 5.

(c) Transactions with related parties

All transactions with related parties are made on normal commercial terms and conditions. The material transactions during the year were:

	Consolidated		Holding Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Purchases by holding company from associates:				
Agchem Limited	56	133	56	133
(d) Other transactions				
Dividends from associate company	-	79	-	-

(e) Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The aggregate remuneration to the executive management group for year ended 31 May 2011 and 2010 were:

	Consolidated 2011	Consolidated 2010	Holding Company 2011	Holding Company 2010
Short-term benefits	1,177	1,232	1,177	1,232
Long term benefits	94	107	94	107
(f) Year-end balances arising from sales/purchases of services				
Receivables from related parties (Note 13):				
- Associate company	79	79	-	-
Payables to related parties:				
- Others	-	624	-	624
(g) Loans and advances from related parties				
Advance from subsidiary company (Note 16)	-	-	646	649

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MAY 2011

24. RELATED PARTY INFORMATION AND TRANSACTIONS

(h) Government guarantee and assistance

i) The Government has approved guarantees to allow the Corporation to borrow in the short term money market and from Export Import Bank of India for its sugar mills upgrade and modernization. The Cabinet decision on 18 March 2010 has continued to exempt the Corporation from paying the guarantee fees. Refer Note 25 for the details of the guarantees provided.

ii) During year ended 31 May 2011, the Government of Fiji provided funding to meet repayment of Government guaranteed loans and to fund on-going working capital requirements of the Corporation. The borrowings from Government of Fiji aggregated to $72,360,930 as at balance date. (Refer Note 16). Also refer Note 27 for further funding provided by the Government subsequent to balance date.

iii) During year ended 31 May 2010, the Corporation paid $8,402,397 as a supplementary cane payment. The entire payment was funded by way of term finance from Sugar Cane Growers Fund. The interest cost in respect to the short term finance is being met by the Government.

25. GOVERNMENT GUARANTEE

The Government has approved a guarantee limited to $120 million, valid until 31 May 2012, as per the Cabinet decision on 18 March 2010, to enable the Corporation to raise short-term loan finance to meet its working capital requirements. The Guarantee Agreement is yet to be executed by the Corporation and the Government.

Furthermore, as noted in Note 16, the Corporation has borrowings from Reserve Bank of Fiji, Fiji National Provident Fund, Bank of South Pacific and Yasana Holdings Limited. All these borrowings are secured by the guarantee from the Government of Fiji.

Furthermore, in prior years, the Government had provided a guarantee of US$50.4 million for borrowings from Export Import Bank of India in relation to the sugar mills upgrade and modernization. As at balance date, the outstanding balance is US$39.5 million under this guarantee.

26. SIGNIFICANT EVENTS DURING THE YEAR

a) Mill Upgrade Program

During the year, the Mill Upgrade Program has been substantially completed. The mill upgrade is expected to bring improvement in the plant reliability, sugar extraction, sugar quality and energy efficiency as envisaged. The performance of mill, mill uptime, and TCTS ratio is expected to improve.

Further, management is making all efforts in consultation with the project engineers, contractors and consultants to bring about efficiency within the upgraded mill plants and machinery at the three larger mills. Training of operators in critical areas of operations is continuing under the guidance of technical experts. It is expected with continuous improvement in this manner, the performance of the upgraded plants will fully integrate with older plant and machinery and it is expected the milling efficiencies will improve to an acceptable level of performance.

26. SIGNIFICANT EVENTS DURING THE YEAR (CONT'D)

b) Impairment of Plant and Equipment

For the year ended 31 May 2011, an independent impairment review of the assets of the Corporation was carried out by an independent consultant from New Zealand. The impairment assessment was undertaken in accordance with International Accounting Standards 36 "Impairment of Assets". Based on the independent assessment, Management has carried out an assessment of the recoverable amount. Due to improvement in sugar prices and the expected improvement in mill efficiency and TCTS ratio, the value of plant and equipment has been assessed to have improved. However the management has decided to retain the provision for impairment loss at $173.4 million and to reassess the impairment provision as at 31 May 2012 based on actual mill performance and price trends for the 2011 season and overall financial performance.

c) On 1 July 2010 Tate & Lyle PLC ("Tate & Lyle") announced that it had signed an agreement for the sale of its EU Sugar Refining operations to American Sugar Holdings, Inc ("ASH"). The sale of Tate and Lyle facilities to ASH has no impact on the delivery of the Corporation's raw sugar.

d) Delisting from South Pacific Stock Exchange

On 14 January 2011, the Corporation submitted an application to voluntarily delist from the South Pacific Stock Exchange in light of the Corporation's difficult financial position, financial support and other assistance being provided by the Government and difficulties in meeting the listing requirements of the Stock Exchange.

The Corporation was delisted from the South Pacific Stock Exchange on 24 February 2011.

27. EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to balance date, the Corporation obtained funding of $56.5 million from the Government to meet repayment of Government guaranteed loans and to fund ongoing working capital requirements.

Other than the above, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group or any company in the Group, the results of those operations, or the state of affairs of the Group or any company in the Group in future financial years.

28. INSURANCE

Property, plant and equipment of the Corporation are not insured for various risks including risk of losses arising from fire, cyclone, flooding, business interruption and others as the cost of insurance cover is significant. Vehicles are insured under comprehensive insurance cover.

29. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were authorised for issue by the directors on 19 October 2011.

THE FIJI SUGAR CORPORATION LIMITED AND SUBSIDIARY COMPANIES

10-YEAR STATISTICAL REVIEW

Financial statistics											
for year ended 31 May (Prior to 2004 -31 March)		**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Turnover	($m)	141.5	194.7	245.8	234.9	274.3	235.2	242.7	227.5	265.7	243.8
Profit/(Loss) before taxation	($m)	(36.6)	(198.0)	(40.1)	(19.7)	6.9	(6.9)	(2.7)	0.7	(13.4)	(13.6)
Income Tax (expense)/benefit	($m)	0	22.9	3.3	0.4	(0.3)	3.3	0.7	1.6	1.2	(2.8)
Profit/Loss after taxation & Extra-ordinary items		(36.6)	(175.1)	(36.8)	(19.3)	6.6	(3.6)	51.9	2.3	(15.8)	(16.4)
Total Assets	($m)	148.7	140.3	312.0	273.5	249.8	211.4	222.8	220.1	252.3	252.6
Net Assets	($m)	(100.7)	(64.0)	111.0	147.8	167.1	168.4	168.6	116.6	114.3	130.1
Proceeds of Sugar & Molasses	($m)	121.6	180.5	204.5	206.1	272.1	231.6	237.8	223.6	261.1	239.4
FSC's share of proceeds	($m)	36.5	54.1	61.3	61.8	81.6	69.5	71.4	67.1	78.2	71.8
Price per tonne cane	($)	49.16	56.23	61.65	58.21	59.06	58.13	55.48	60.12	53.80	60.80
Production statistics											
Season		**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Cane Crushed	(000t)	1,780	2,247	2,321	2,479	3,226	2,789	3,001	2,610	3,422	2,805
Sugar Produced	(000t)	132	168	208	237	310	289	314	294	330	293
Molasses Produced	(000t)	113	136	120	115	157	118	113	107	149	106
Tonnes Cane/Tonnes Sugar		14	13	11.2	10	10.4	10	10	9	10	10
Molasses % Cane		6	6	5.2	5	4.9	4	4	4	4	4
POCS %		10	10	10.76	11	11.25	11	12	13	11	12
Cane Purity %		79.3	78.8	80.4	81	81.4	82	83	84	82	83
Fibre in Cane %		12	12	12.0	11.4	11.6	12	12	12	12	12
Average Crushing Rate for all mills (tcph)		794	789	843	885	919	953	972	895	978	1,083
Actual Crushing Time as % of Available Time		53	60	68	68	76	75	79	82	76	71
Field statistics											
Season		**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
Number of Growers		16,609	17,762	18,683	18,691	18,649	20,290	20,492	20,693	21,253	21,882
Number of Active Growers		13,251	13,903	14,096	14,948	15,730	16,527	17,639	17,362	17,773	18,615
Tonnes Cane per Hectare		40	46	46	46	58	48	49	43	42	42
Average Tonnes Cane per Grower		134	162	165	166	205	172	170	126	161	128
Number of Cane Cutters		9,650	9,649	9,993	11,36	15,205	15,652	15,270	15,285	16,772	15,280
Output per Cutter (tonnes)		184	228	225	117	212	172	196	170	204	184
Burnt Cane %		23	32	50	33	51	36	34	33	36	43
Sugar exports - destinations and quantities (metric tonnes)											
Season		**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**	**2001**
UK/EU		110,731	152,906	207,575	187,858	209,053	178,905	170,742	167,585	175,825	152,233
MALAYSIA		-	-	-	-	-	-	-	-	-	-
USA		-	-	-	9,157	13,442	10,111	9,006	9,061	9,035	9,065
JAPAN		-	-	-	20,000	40,000	57,481	62,000	37,008	58,637	46,615
KOREA		-	-	-	-	-	-	-	-	-	-
CHINA		-	-	-	-	-	-	-	25,000	25,000	-
INDONESIA		-	-	-	-	-	-	25,425	-	-	-
SPECIAL PREFERENTIAL MARKET		-	-	-	-	-	-	6,475	-	20,445	39,460
TAIWAN		-	-	-	-	-	-	-	-	-	-
PORTUGAL		-	-	-	-	-	-	-	17,000	-	-
TOTAL		**110,731**	**152,906**	**207,575**	**217,015**	**262,495**	**246,497**	**273,648**	**255,654**	**288,942**	**247,373**

Penang Mill

NOTES

THE FIJI SUGAR CORPORATION LIMITED

3rd Floor, Western House, Lautoka.

Private Mail Bag,

Lautoka.

Phone: 6662655, Fax: 6664685