MARYBOROUGH SUGAR FACTORY

SUGAR MILLERS & GROWERS

ASX ANNOUNCEMENT and NEWS RELEASE

25 February 2011

MSF EXERCISES NORTHERN MILLING JOINT VENTURE OPTION AND ACHIEVES POSITIVE RESULT DESPITE CHALLENGING HARVESTING CONDITIONS

(THIS ANNOUNCEMENT INCLUDES RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2010)

(This release should be read in conjunction with the Appendix 4E released today)

<u>Northern Milling Joint Venture – Update</u>

The Maryborough Sugar Factory Limited ("MSF" or "Company") has exercised its option to acquire the assets contributed by Bundaberg Sugar Ltd (BSL) to the Northern Milling Joint Venture (NMJV), with effect from today, for a consideration of $50 million (plus settlement adjustments).

The NMJV includes the Mulgrave, South Johnstone and Tableland Mills, former mill sites at Babinda and Mourilyan and associated infrastructure supporting these milling operations. All assets are located in Far North Queensland.

The NMJV commenced on 1 January 2011. Under the Joint Venture Agreement entered into in July 2010, MSF had an option to acquire this interest up until 29 February 2012. After due consideration, MSF has exercised its option today which will result in it becoming entitled to 100% of the Joint Venture operations for the 2011 season and beyond.

Under the terms of the option agreement:-

- Completion of the acquisition will occur in 60 days from today
- BSL will be entitled to a reimbursement of all contributions it has made to the NMJV since the last day of crushing for the 2010 season
- All sugar produced for the 2011 and subsequent seasons will be to MSF's account
- MSF will be honouring existing marketing agreements BSL has entered into with QSL for the 2011, 2012 and 2013 seasons

MSF's Chairman, Mr James Jackson, said today "The exercise of the NMJV option to acquire the remaining 50% of the Joint Venture is a significant event in the history of our Company. The Board has for some years been working towards an expansion of its sugar cane milling operations in Far North Queensland.

"The acquisition of these assets will bring our total milling capacity up to 4.7 million tonnes of sugar cane per annum. Our next challenge is to drive cane supply growth to further increase the capacity utilisation of these milling operations. This will simultaneously grow our sugar volumes and reduce our costs of production.

“We believe these assets are well placed to further supply the increasing demand for raw sugar from our Asian customers” Mr Jackson said.

MSF’s CEO, Mr Mike Barry, said “I look forward to welcoming the employees of BSL on board and working with them to deliver the synergies required to make the combined operations a world competitive raw sugar producer”.

Summary Financial Results for the Period Ended 31 December 2010

- Operating EBITDA of $12.7m which is in excess of the December 2010 guidance
- Strong underlying result despite difficult harvesting conditions
- Results are transitional for this period due to a change in financial year end to 31 December (this report is therefore for a 6 month period)
- Strong international demand and buoyant raw sugar prices earnings continued in the second half of 2010
- Balance sheet further strengthened by a fully underwritten capital raising of $25 million in December

Subsequent to Balance Date of 31 December 2010

- Northern Milling Joint Venture (NMJV) commenced on 1 January 2011
- No change to prior outlook for 2011 season following Cyclone Yasi
- Additional capital raisings completed in January for a further $24 million
- Excess capacity and cost pressures led to the proposal to close Babinda Mill with agreement now reached with employees to close this mill
- Negotiations completed on new debt funding facilities with the introduction of a “club bank facility” consisting of three major banks
- MSF has today exercised its option to acquire BSL’s interest in the NMJV

Overview

Results for the six month period ended 31 December 2010 have shown a decline from the prior period ended 31 December 2009, with Net Profit after Tax at $6.8 million, (down 37% from the 31 December 2009 profit of $10.8 million). Profit before Tax of $8.4 million was $6.1 million lower than the 31 December 2009 profit of $14.5 million.

The main contributing factors to this $6.1m variance are:

- $3.0m lower STL dividend. During the period to 31 December 2009 STL paid a special dividend following the sale of the Brisbane Bulk Sugar Terminal
- $0.8m lower Milling EBIT due mainly to lower 2010 season production offset by an improved 2010 season sugar price
- $0.9m reduced Farming EBIT from lower biological asset valuation
- $1.0m higher other expenses due to Merger & Acquisition related fees as a result of successfully concluding the NMJV agreement during the period
- $0.4m higher finance costs

The Profit before Tax of $8.4 million for the period to 31 December 2010 was impacted by the following non-recurring items:

- $1.5m net due to hedging losses incurred following lower sugar production in 2010
- $1.0m in stamp duty costs incurred in obtaining the NMJV option
- $1.0m of costs relating to Merger & Acquisition activities

MSF's CEO, Mr Mike Barry, said today "This outcome reflects the strong underlying performance of the Company. Despite the difficult weather conditions that the Australian sugar industry faced in season 2010, we were still able to produce a very pleasing result.

"Looking forward we expect we will not incur certain costs mainly relating to Merger & Acquisition activity. Having now exercised the NMJV option, our focus is to gain further efficiencies from the business which has grown quite rapidly in recent times.

"Maintaining a globally cost competitive milling business remains our key objective. The strong demand for raw sugar on the global market is resulting in higher prices for our product which will assist to offset some of the expected lower crop levels in the upcoming season.

"This result is also somewhat transitional following our decision to change our year end to 31 December to better align with the seasonal nature of our business.

"By exercising the NMJV option the Company will be capable of crushing up to 4.7 million tonnes of sugar cane per annum. The acquisition of these assets will further consolidate on our plans for Far North Queensland and place us in a position to generate additional value for our shareholders into the future," he said.

"We are positioning ourselves to meet the demands and opportunities of international markets. The recent decision, in conjunction with our Joint Venture partners, Bundaberg Sugar Ltd, to seek to close the Babinda Mill is an example of our focus to drive down our cost structure to ensure we remain competitive.

"We regret having to take this decision but it will allow us to further invest in our remaining assets to ensure they remain sustainable" said Mr Barry.

Results

	6 month period ending 31 December 2010 '000	6 month period ending 31 December 2009 '000	December Change %	30 June 2010 '000
Revenue	94,616	116,168	-19%	159,807
EBITDA	12,768	18,405	-31%	14,607
EBIT	10,482	16,253	-36%	11,667
Finance costs	(2,075)	(1,715)	21%	(2,963)
Profit before tax	8,407	14,538	-42%	8,704
Profit after tax	6,785	10,829	-37%	7,015
Net cash flow from operating activities	(4,230)	13,259	-132%	22,512
Gross assets	249,996	240,683	4%	211,219
Liabilities	(102,258)	(123,394)	-17%	(61,635)
Net debt	(15,642)	(16,440)	-5%	33,902
NTA	2.35	2.14	10%	2.74
NTA (excluding cash flow hedge reserve)	2.68	2.63	2%	2.54

Dividend and Dividend Reinvestment Plan

The Directors have declared a fully franked final dividend of 2.5 cents per share (June 2010: 4 cents, December 2009: 2.5 cents) on an expanded capital base after the successful capital raising during December 2010 and January 2011. Shareholders have the option to participate in the Company's Dividend Reinvestment Plan ("DRP") for the six months ended 31 December 2010. The Directors have declared the Record Date for determining entitlements to this dividend and optional participation in the DRP to be 8 March 2011.

The DRP is optional and offers shareholders the opportunity to acquire ordinary fully paid shares which rank equally with all other shares issued, without transaction costs, at the prevailing market value. A shareholder can elect to participate, or terminate their involvement, in the DRP in respect of the December 2010 final dividend at any time prior to the record date of 3 March 2011. Payment of this dividend is expected to be made on 31 March 2011.

Summary of Business Activities Undertaken During Period Ended 31 December 2010

Sugar Milling

The 2010 season reflected a difficult harvesting season in the Mulgrave district and a very difficult season in the Maryborough region. The crop in the Maryborough district was impacted by adverse weather conditions resulting in 16% less cane crushed. Overall cane processed decreased by 4% and sugar production decreased by 17%, as a consequence of lower overall sugar yields (CCS).

31 December 2010 2010 Season		30 June 2010 2009 Season	
Tonnes		Tonnes	
Cane	Sugar	Cane	Sugar
1,691,501	212,024	1,766,171	257,736

Cane Growing

Improving yields and sugar cane production from Company-owned farms remains a challenge as we seek to benefit from scale opportunities and integration. Production declined in the 2010 season due to the adverse weather conditions preventing the completion of harvest. Approximately 56,000 tonnes on 857ha was left to standover to the 2011 harvest. (Company managed - 41,000 on 620ha; Tenanted – 15,000 on 237ha).

Company Farms and Leases	2010 Tonnes	2009 Tonnes	%
Company-managed	133,364	136,680	-2%
Tenanted	39,025	76,081	-49%
Total	172,389	212,761	-19%

Investment in Sugar Terminals Limited (STL)

The Company at balance date holds 13.34% of the issued capital in STL – comprising 34,663,001 "G" Class shares and 13,346,076 "M" Class shares.

This investment paid fully franked dividends of $1.3 million in the six month period ended 31 December 2010 and provides the opportunity to participate in the benefits of the broader sugar distribution chain.

As noted above the result for the six months ended 31 December 2009 included a special dividend following STL's sale of its Brisbane Bulk Sugar Terminal.

Land Portfolio

The land portfolio at balance date was the largest asset class at $66.9 m. The independent valuations on the MSF land portfolio carried out as at 31 December 2010 supports the fair value adopted in the financial statements by Directors. No adjustment was made to the carrying values during the reporting period.

The Company continues to seek to monetise these assets and is working with advisors on various options to achieve this outcome whilst maintaining continued cane supply.

The Company's plans to develop Mary Harbour, a residential complex on a 174ha property with Mary River frontage, are progressing. The process of obtaining the necessary statutory approvals to support the development application is continuing at both Local and State Government levels, with an outcome expected in late 2011. The Company incurred $40,918 (30 June 2010: $534,313) during the period ended 31 December 2010 relating to this development. All costs to date are being expensed in line with accounting standards and its value is being carried at its existing usage as cane land.

Other matters

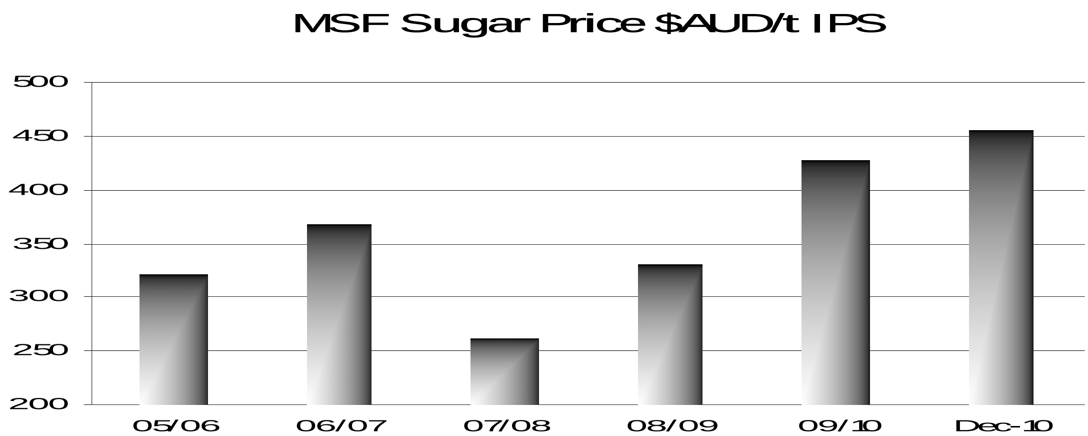
Sugar Marketing and Pricing

Sugar prices have strengthened significantly on the back of stronger global fundamentals. The 2010 season again saw an increase in the average sugar price to $456 IPS per tonne which is 6.5% higher than the previous year.

The Company continues to successfully market its raw sugar production directly to customers based predominately in the Asian region.

Our approach to market risk is comprehensive and relies on a framework of clearly defined policies, strategies, procedures and limits. This framework is supported by management information systems designed to monitor, measure and report risk exposure compliance.

Continued favourable global fundamentals combined with solid demand in the Asian Region (where most of MSF's sugar is sold) is reflected in strong sugar futures contract prices. A historical summary of MSF Sugar Price achieved in recent years is as follows:



Varying levels of pricing have been completed as far out as the 2012 season. Marked-to-market against available futures contracts, our seasonal pricing is relatively strong.

Following the exercise of the option on the Northern Milling Joint Venture, our share of sugar production will increase allowing further scope to participate in the strong sugar futures prices. The following table demonstrates the status of the MSF Pricing position for corporate sugar after the exercise of the NMJV option.

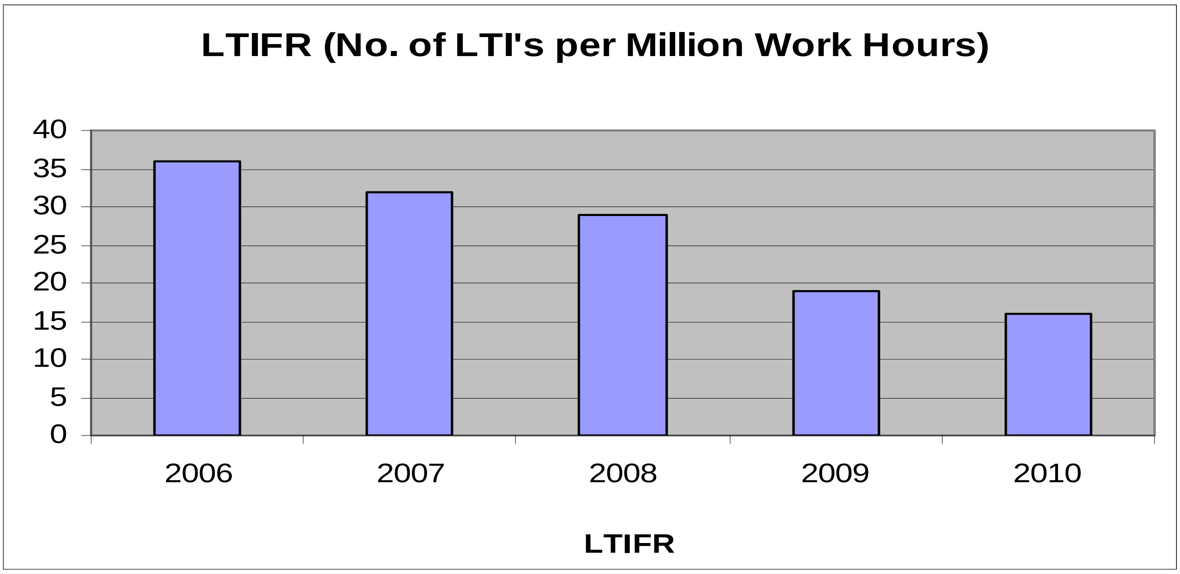
Season	Percent Priced:	Corporate Marked to Market ($/t IPS)	Current Market Prices
2010	100%	$456	$658
2011	40%	$490	$532
2012	2%	$472	$473

Note:
1. Average of current hedge book and unhedged production at current prices
2. International Pol Scale (standardised quality sugar). As a guide, NY#11 equivalent sugar price is approximately $15/t higher than IPS price

Safety Performance

We continue to invest significant resources in safety training as well as improving our work environment through an ongoing program of upgrades to factory floors, lighting, guarding, plant access and safety equipment.

Improved safety awareness has been reflected in our lost time injury frequency rate (LTIFR) in recent years. Particularly pleasing is that LTIFR continues to fall, a very good outcome following a comprehensive program of focus and awareness in the area of safety in this high priority area.



Sustainability and the Environment

The sugar industry generally and our operations specifically continue to actively engage with all stakeholders to maintain and wherever possible, improve on our environmental performance. A strong compliance framework is maintained and both mills are largely self-sufficient in their energy requirements.

Whilst the regulatory framework has political uncertainties at this time we continue to assess and implement processes to meet any obligations introduced. We have had no reported environmental issues for the six month period ended 31 December 2010 and foresee the sugar industry continuing to be an active participant in the world's search for alternative energy sources.

Events Subsequent to Balance

Northern Milling Joint Venture

On 19 July 2010, the Company entered into the Northern Milling Joint Venture (NMJV) Agreement with Bundaberg Sugar Ltd (BSL) to establish a 50/50 joint venture of the northern sugar cane milling operations of both parties. The NMJV commenced operations on 1 January 2011 (Effective Date). On execution of the Joint Venture Agreement, the Company paid a non-refundable amount of $20 million to BSL as consideration for an entitlement to 50% of the future sugar production of the NMJV from the Effective Date and a call option to acquire BSL's 50% of the NMJV for a $50 million cash payment. As a result of this option, MSF has control over the NMJV and therefore will consolidate its results from the Effective Date.

The Company exercised the option to acquire BSL's 50% participating interest in the NMJV effective on 25 February 2011 for a consideration of $50 million (plus settlement adjustments). The NMJV includes the following assets: Mulgrave, Tableland and South Johnstone Mills plus the Babinda and Mourilyan Mill Sites and associated infrastructure.

The NMJV announced on 8 February 2011 its intention to close the Babinda Mill, subject to agreement being reached with employees affected by the closure. Agreement has now been reached with these employees and the mill will not be recommencing operations.

At the time the Appendix 4E was authorised for issue, the group had not yet completed the accounting for the acquisition of the NMJV. In particular, the fair values of the assets and liabilities acquired have not yet been finalised.

Capital Raisings

On 17 January 2011, shareholder approval was received to issue a further 4,012,916 ordinary shares in the Company, at $3.15 per share. These shares were issued on 20 January 2011.

On 25 January 2011, the Company issued a further 3,484,726 ordinary shares at $3.15 per share under a Share Purchase Plan. These share issues increased the Company's issued capital by $27,690,000 after transaction costs of approximately $927,572.

Outlook

As previously reported following Cyclone Yasi we have had no material damage to our Company infrastructure at our northern Queensland operations. Whilst the initial assessment indicated a 5% to 10% reduction from the total Company estimate of 4 million tonnes of cane previously forecast for the 2011 season, the latest assessment points to the higher end of this range. Nevertheless based on current global sugar prices the earnings impact will be largely offset by these strong prices for our product. Therefore no adjustments are considered necessary to the previous earnings guidance provided as part of the capital raising undertaken in December 2010.

Further information:
Mike Barry
CEO
The Maryborough Sugar Factory Limited
Mobile: 0401 896 999