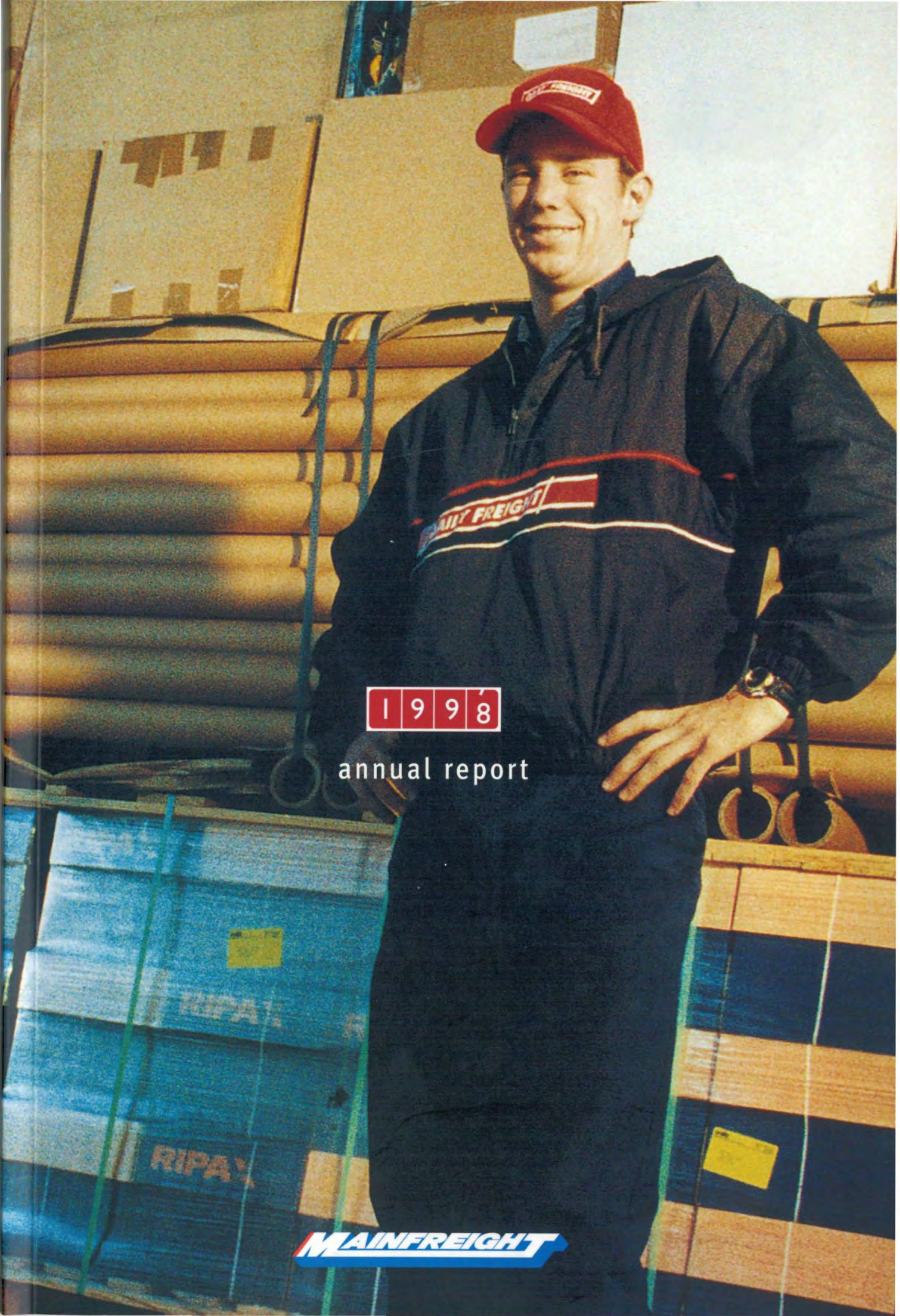


1998 annual report

MAINFREIGHT

notice of meeting

Notice is hereby given that the Annual Meeting of Shareholders will be held on board the "Spirit of Freedom", Pacifica Shipping, Inter-Island Wharf, Waterloo Quay Wellington, on Thursday 30th July at 2.00pm.

Ordinary Business

1. **Accounts.** To receive and adopt the Financial Statements together with the report of the Directors and Auditors for the year ended 31 March 1998.
2. **Re-election of Directors.** Mr John Fernyhough and the Hon. Richard Prebble, retire in accordance with the constitution and, being eligible, offer themselves for re-election.
3. **Auditors.** To record the re-appointment of Arthur Andersen as auditors and to authorise the Directors to fix their remuneration for the ensuing year.
4. **Guarantee.** To authorise the company to provide an unlimited guarantee and indemnity in respect of the obligations of Lep International Pty Ltd (a Mainfreight Ltd subsidiary) to the Westpac Banking Corporation.

For and on behalf of the Board.

Carl Howard-Smith
Director
30 June 1998

welcome!

For Mainfreight 1998 was a year which saw us emerge more strongly than ever as a 'logistics' company. Increasingly, our activities are driven by information and technology and implemented by a team which remains highly focussed on meeting the needs of our customers.

We have a very clear organisational structure – with four divisions:

Forwarding – incorporating all New Zealand domestic transport services;

Warehousing – which covers third party and contract managed stores;

Australia – incorporating all Australian domestic transport services; and

International – covering the global and agency freight forwarding activities.

Each of these divisions reports through to the Managing Director. As you will see in the following pages, 1998 has seen significant expansion in all of the divisions. Innovative thinking and opportunistic purchasing continues to provide earnings growth for our Group.

Through the next financial year, with an outstanding team we will aim to deliver excellence to our customers and strong returns to our shareholders.

contents

proxies

Any shareholder of the company entitled to attend and vote at the Annual Meeting is entitled to appoint a proxy and vote instead of him or her. A proxy need not be a shareholder of the company. A form of proxy is enclosed in this report, detailing the lodgement and exercise of proxies.

The financial year ended 31/3/98 was a period of considerable achievement, where sales exceeded \$200M (\$210.5M) for the first time, and our net profit after tax and the write off of goodwill and minority interests increased by 21.9% to \$7.3M.

It is worth noting that this profit was achieved after writing off \$0.6M more depreciation and \$0.3M additional goodwill amortisation than in the previous year. Taking these figures into account our operating profit improved by \$2.6M (21.5%).

These results have been achieved because we are a 'Logistics' company – not a trucking company as some analysts mistakenly continue to call us.

Your company is involved, or is close to being involved, in logistics activities throughout New Zealand and Australia. These activities are carried out under the following brands:

- Mainfreight Transport – including Forwarding, Metro, Wharf and FTL
- Mainfreight Warehousing
- Mainfreight International
- Mainfreight Relocations
- Daily Freight
- Chemcouriers
- Lep International NZ Ltd
- Mainfreight Distribution Pty Ltd
- Lep International Pty Ltd
- Airfreight Consolidators International ("ACI")

Sales for the year increased by \$47.5M, (29.1%) of this increase, \$7.5M (4.6%), came from increased sales in our existing businesses, while the balance of \$40.0M was as a result of acquisitions.

The growing trend towards major logistics proposals and freight tenders is a fascinating, yet time-consuming and expensive process for our business. We see opportunities here as logistics consultants to add value to our market in employing the skills we have developed.

In July 1997 we raised \$15.4M via a rights issue to shareholders in preference to further borrowings. The proceeds of this rights issue were used to purchase land for future development, new logistics facilities and business acquisitions, as detailed below:

Railway Lane Otahuhu – purchased 16 acres of rail serviced land July 1997. This will be the site for a major freight forwarding and integrated warehousing facility early in the new century.

McGregor Furniture Removals 1994 Ltd – acquired September 1997. Re-branded Mainfreight Relocations, this business operates in the domestic and international relocation markets, servicing commercial and household sectors.

Trade Air Ocean Ltd – purchased October 1997. This business is being merged with that of Mainfreight International where we acquired majority shareholding in December 1997.

O'Rorke Road, Penrose – built January 1998. In keeping with our desire to fully integrate warehousing with transport and forwarding we completed the construction of a 100,000' (9,270M^2) warehouse at our Daily Freight site in Penrose.

Richard Pearce Drive, Mangere – built January 1998. This 46,500' (4,328M^2) warehouse and 10,700' (994M^2) of offices has been built to accommodate both the dry and perishable freight activities of Lep International (NZ) Limited, with an adjacent land bank for future development.

MAINFREIGHT

DAILY FREIGHT

Union East Street, Whangarei. In October 1997, Mainfreight commenced operating from a purpose-built 15,000' (2,018M²) terminal in Whangarei. This facility is unique in that we also operate a contract timber kiln drying operation on the site. This provides us with an excellent utilisation of equipment and manpower, as well as a source of freight for the Whangarei to Auckland corridor.

Laverton North, Melbourne – completed construction of 85,000' (7,900M²) logistics terminal in April 1998. Mainfreight Distribution relocated its entire warehousing, international seafreight and interstate freight services to this facility.

Lep International Pty Ltd. In March 1998, Lep International NZ Ltd acquired the equity in Lep International Pty Ltd. Lep Australia operates branches in Sydney, Melbourne, Brisbane, Adelaide and Perth, and generates revenue of A$60M p.a. Lep Australia is undergoing significant restructuring and will produce excellent results once the necessary changes are made.

We have all our properties valued annually. The present market value currently exceeds the book value by $8.5M. This adds a theoretical $0.12 to the net tangible asset backing of your shares.

All our quality statistics again improved in the current year. In the year to March 1997, we moved 329 consignments before incurring a claim. In the year to March 1998 we lifted that number to 374 consignments before incurring a loss or damage – a 14% improvement.

we see opportunities in times of economic downturn.

The Year Ahead We see the period up to March 1999 as challenging. April and May were dominated by the Australian wharf strikes, and the impact of the Asian crises on our business and both the Australian and New Zealand economies. Our East Coast drought is cause for concern and will add to the difficulties of the current year.

1999 will not be a year for the weak or faint-hearted. It will be a year when the people who have grown and developed with Mainfreight; where the bricks and mortar bought and paid for over twenty years; where our talented youth of exceptional energy; where the wise heads who have been together for a decade or more; and where our diversity of businesses – will all come together – to cause outstanding results no matter what the difficulties of the time.

We look forward to taking 1999 head on.

Bruce Plested
Managing Director

LEP INTERNATIONAL (N.Z.) LTD

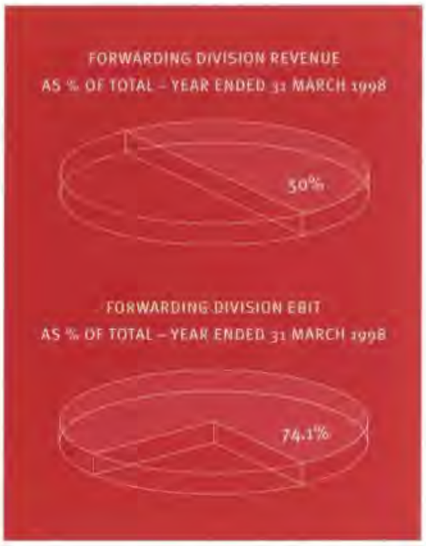
CHEMCOURIERS

aci AIRFREIGHT CONSOLIDATORS INTERNATIONAL

forwarding – growth through new services

The Group's domestic Forwarding businesses operate under the Mainfreight Transport and Daily Freight brands, with Chemcouriers servicing the packaged chemicals market.

Forwarding operations contributed $107.7M in revenues, an increase of $9.2M on the previous year. Earnings before interest and tax (EBIT) was $9.3M, up $0.7M on last year. A total of 1.169 million tonnes was moved during the period, which was made up of 2.040 million consignments. This compares with last year's 0.933 million tonnes and 1.800 million consignments.



revenue The sales revenues were variously affected through the combination of business closure and plant relocations to Australia. Offsetting this trend was a combination of sales gains from customers seeking to take a more holistic approach to their supply chain costs rather than simply tender their component businesses each year. Acquisition revenues and the full integration of Combined Haulage also assisted turnover.

During the year we have seen a number of customers seek to reduce supply chain costs, via lower freight rates. In some cases we have been able to take a consultative approach and assist them in improving their internal cost structures. In other cases we have seen long-standing business relationships yield to tender processes, resulting in lost margin to Mainfreight.

During the 1998 year our business developed two distinct markets:

- The less-than-container-load (LCL) freight customer, who requires an efficient, time-definite distribution service to all of New Zealand, and;
- The corporate logistics customer who is seeking a range of innovative solutions to problems beyond the moving of freight from A to B. This has seen Mainfreight become involved in a number of significant supply chain projects, which involve the Warehousing and International divisions of the Group as much as the domestic Forwarding division.

Our activities in metropolitan and wharf services in the Auckland region continue to grow and have seen 10,679 twenty-foot-equivalent (TEU) container movements from the Auckland Wharf alone during the 1998 year compared to 5,780 last year.

Facilities have continued to be improved with new terminals being opened in Rotorua and Whangarei. We have, though, delayed the Hamilton upgrade pending decisions on a new site.

Daily Freight continues to perform well, improving quality, services and increasing margins from existing accounts. A continued drive for increased revenues from more sales remains their focus for the forthcoming year.

Chemcouriers continues to be the country's foremost Hazardous Goods transport operator. The acquisition of Prochem in August 1997 assisted our Auckland metro deliveries. Agricultural-related revenue reduced in 1998, due to drought conditions in the North and South Islands. Expansion into specialised warehousing and order assembly, coupled with a focused management team will see continued improvement for this business in 1999.

costs The Forwarding division's gross margin improved 1% over the 1997 year. This was reduced by a commensurate increase in operating expenses. These were notably higher depreciation, equipment leases and vehicle costs associated with the Combined Haulage acquisition. These vehicle costs have now been eliminated from the 1998 financial year.

Freight damage claims reduced during the 1998 year. This is a tangible indicator of improvement in our quality of operations and a feature of our 'constant improvement' culture.

While little gain has occurred in further reducing operating costs, equally we have avoided any dramatic blow-out of costs which our ongoing 'Cost Out' programme will maintain.

A continuation from 1998 of better managed linehaul and unit utilisation is expected to assist through 1999. Recent confirmation that heavy transport Road User Charges will not be increasing and new competition in the retail fuel sector should also maintain linehaul costs throughout fiscal 1999.

teamwork, not trucks delivers the goods.

outlook The year ahead will be a tough one for our competitors. Mainfreight's branch network, team ethic and growth from new business, particularly from logistics based opportunities, will provide a level of resilience to economic downturn.

While we expect margins to come under pressure in the 1999 financial year, potential still exists to improve a number of branch returns. The four branches that collectively lost $0.7M in 1998 will be managed into profit during the year. This too will counter the adversity expected in other areas.

Don Braid assists Bill Sherman loading at Montana Wines.

our people

and their pride make the difference.

warehousing – the room for expansion

Warehousing operations contributed $8.0M in revenues, up $1.2M from the previous year. Earnings before interest and tax (EBIT) was $1.0M, up from $0.6M on last year. The warehouse business continues to grow organically; new customers are obtained from cross-divisional selling and market awareness of our added value services. The major opportunities for 1999 stem from an increasing acceptance of third-party warehousing.

revenue The Warehousing and Distribution Division has seen solid growth in the 1998 financial year. We continue to grow revenue by expanding existing facilities to meet the increasing demand from existing and new customers. Growth in new facilities comes at a short-term cost to operating margins.

Seldom can we develop new facilities and maintain operating margins within the same accounting period. After construction, it takes some six months to fill new facilities to an optimal operating level, with margin management being fully developed after some twelve months of operation.

Overall division profitability has been strengthened by the margin enhancement of 1997's new facilities in Christchurch. Wellington and Auckland operations have seen significant revenue growth and we expect to develop this further.

cost The ability to attract, develop and retain warehousing operators remains a priority. As with other parts of the logistics chain, qualified individuals are at a premium. We now have the lowest cost method of constructing new facilities and see the development of our people and information technology systems as our next priority.

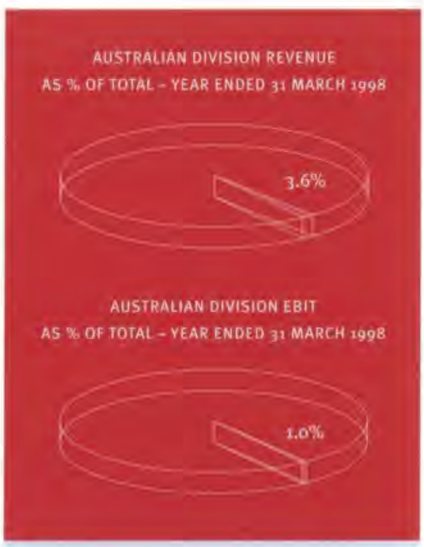
1999 will see the introduction of our new inventory management system at all branches. The system will provide value-added benefits for customers and efficiencies in operations.

outlook With quality facilities continuing to attract new customers, we remain committed to building and developing new operations to suit our clients expanding needs. The negative economic outlook is likely to see more corporate initiatives to reduce operating cost in business. This environment favours the type of services that we offer.

Australia – a pool of potential

Australian operations contributed $7.8M in revenues, up $ 1.5M from the previous year. Earnings before interest and tax (EBIT) was $128,000, down $327,000 on last year. The result was disappointing, and a number of significant steps have been taken to raise the returns from Mainfreight Distribution Pty Limited.

The 1997 decision to move away from a heavy reliance on bulk storage of commodities resulted in additional costs associated with developing more specialised warehousing. New business opportunities were expected to counter the raised overhead cost structure. While these have subsequently eventuated, the timing effect was to depress 1998 financial year earnings.



revenue Total sales increased by 23%. The major growth factor has been our entry into the international freight market, coupled with new warehousing accounts. The drive to operate at higher service levels than our competitors has necessitated a significant management refocus. By placing our total emphasis on team effort and quality, we are making gains in both new business and higher margins on existing accounts.

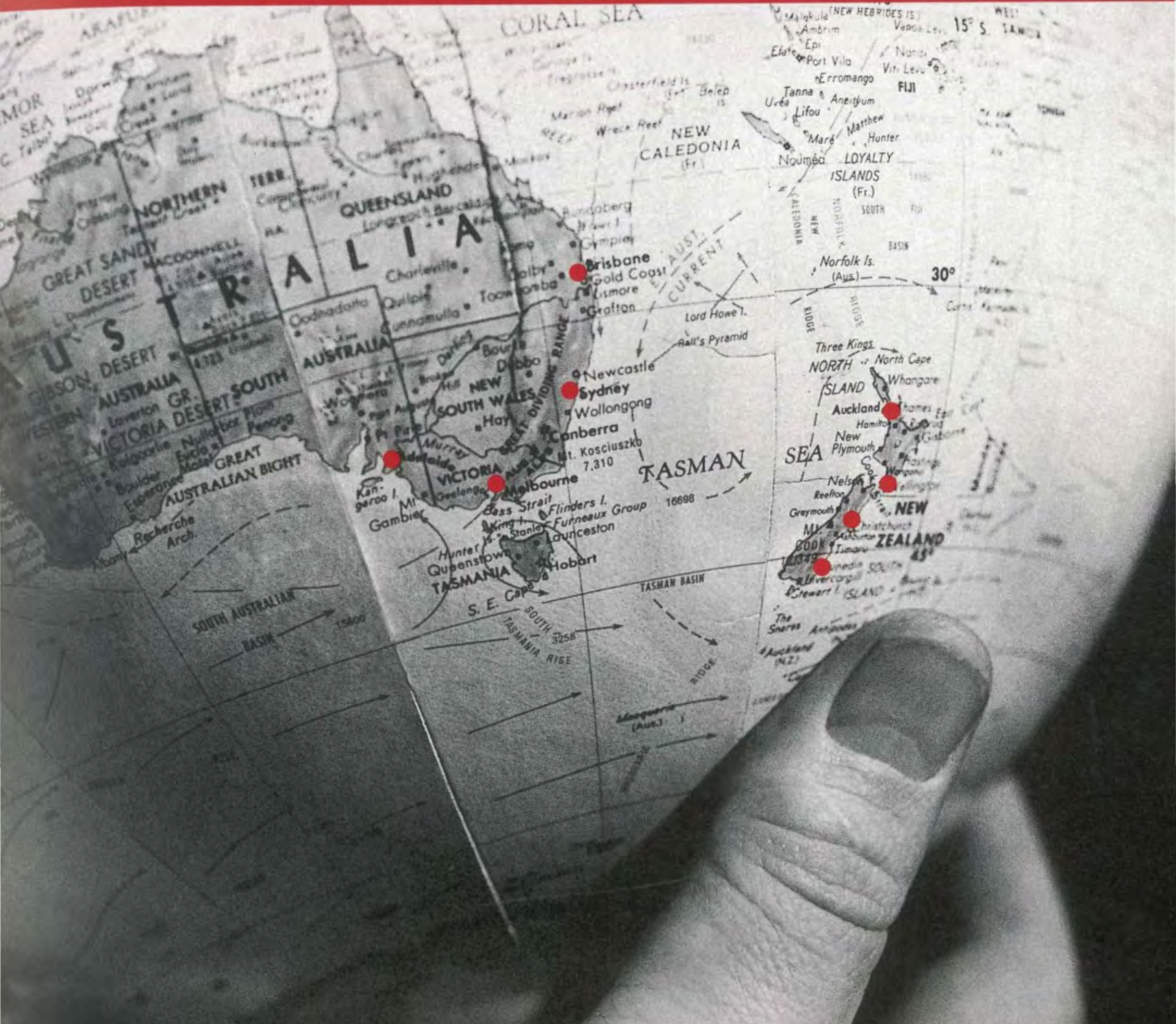
We remain optimistic about the potential of the Australian operation, given the excellent feeder benefits to Mainfreight's New Zealand activities in managed warehousing, wharf cartage and domestic distribution.

costs Overheads increased by a greater percentage than sales. Major contributors were salaries and rent, which grew by $0.5M over last year. We have negated much of the rent increase in Melbourne by moving to purpose-built and owned premises at market rates comparatively lower than previously paid. We recognise a need to improve our site position in the Sydney market.

outlook Australia is the key trading partner of New Zealand. Mainfreight Distribution's operations reflect a strategic need to provide door to door solution to our customers irrespective of which side of the Tasman they reside upon. We have committed to new facilities in Victoria and are evaluating several additional service areas that dovetail our existing operations.

The decision to build in Australia reflects a firm belief that a higher quality of revenue can be gained with superior facilities and services.

Mainfreight Melbourne facility.

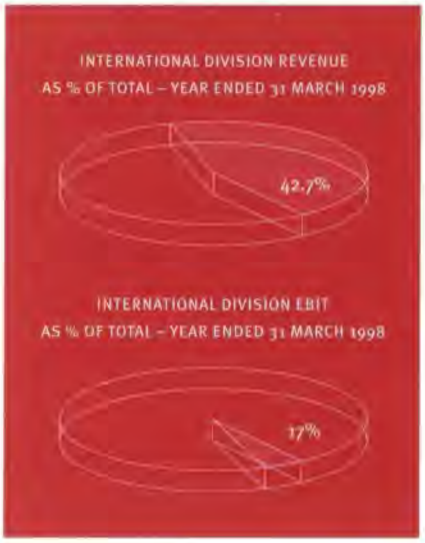


our revenue base is sound – the focus is now on increasing our returns.

international – growth beyond local markets

Like the domestic Forwarding activities, the International division comprises two separately branded businesses: Mainfreight International, now a wholly-owned subsidiary; and Lep International (NZ) Limited, a 75% owned subsidiary. During the 1998 year the International division underwent significant change through new acquisitions.

The move to acquire Trade Air Ocean in October 1997 was primarily motivated by a wish to improve the revenue base of Mainfreight International. This acquisition cost \$2.6M, with continuing obligations that secure the revenue base and senior management associated with the vendors.



Acquisition of the Mainfreight International's minority interests in November 1997 saw us undertake a major restructuring of this business. The consideration for this purchase was two Auckland properties owned by Mainfreight but tenanted by third parties. The transaction had a value of \$1.8M, based upon the market values of the properties.

Lep International (NZ) Limited took possession of new premises in Auckland in January 1998 and purchased the equity of Lep International Pty Limited in March 1998. The Australian acquisition provides an opportunity to build a unique branch network incorporating five New Zealand branches and five in Australia.

Lep Australia mirrors Lep New Zealand in branch network, revenue and team numbers.

We believe that a similar level of margin can also be achieved through autonomous management at a branch level.

revenue Lep New Zealand's revenue was \$60M, up (\$36M) from last year reflecting a full financial year's contribution post the August 1996 acqusition. Mainfreight International, incorporating Trade Air, had revenues of \$27M.

Both Lep New Zealand and Mainfreight International have seen reduced export customer revenues in the face of faltering Asian economies. However, a tendency towards import volumes in Lep and a strong airfreight presence in both Lep and Trade Air has offset much of negative effects arising from Asia and the recent Australian port disputes.

The economic impact of recent national retailer receiverships impacted upon the Group. While no monetary loss was recorded, the loss of future freight sales from the Skellerup Group and other receiverships will be significant.

One month's revenue was recorded for Lep International Pty Limited in the 1998 result. The Lep Australia operations are primarily import focussed, with a strong airfreight component from Europe and North America. Annual revenues for this business are approximately \$60M.

costs The cost structure of the International division has been managed and maintained at levels comparable to the previous year. At Mainfreight International the rationalisation of Trade Air activities in Auckland and Christchurch has had an immediate impact on operating costs. Lep New Zealand continued to develop under the Mainfreight umbrella in 1998, with increased capital expenditure on computer systems.

Several International division operations were overhauled in 1998.

Lep New Zealand's perishables division, a high revenue, low margin operation was successfully restructured. A new management focus and better business mix improved the returns to acceptable levels.

The decision to operate two Auckland container freight stations and two full-container-load (FCL) export operations was also reviewed. This resulted in the transfer of a number of high revenue, low margin FCL export accounts from Lep New Zealand to Mainfreight International, where there have been gains in economies of scale in export packing, documentation and transport.

branch level accountability for bottom-line profit is our prime focus

outlook The acquisitions of 1998 have created an exciting platform from which to grow the International division. The emphasis is now upon restructuring Lep Australia and Lep New Zealand into one 'ANZAC' entity. The Mainfreight International/Trade Air integration will be operationally complete in 1999, with an emphasis on gaining new revenue to compensate for recent business losses.

Chris Dunphy and Grant Draper at Mainfreight International.

temperature controlled warehousing The development of warehousing as an adjunct to the domestic forwarding has been a feature of Mainfreight's development for the last five years.

As warehousing has become more specialised, Mainfreight has sought to look beyond the third party activities and view warehousing as 'a freight-based activity that results in building utilisation'. The result is an open agenda to develop temperature-controlled warehousing. At one end of the spectrum is the new chiller/freezer complex being constructed for Lep New Zealand. At the other extreme are kiln drying rooms developed for the treatment of timber at Mainfreight's Whangarei facility.

the focus is now on better margins through added-value services.

Lep New Zealand's perishables facility in Auckland is a $0.5M commitment to specialised equipment. The facility's primary business is transitory storage for export airfreight product. However, the opportunity exists to develop services for importers and local distributors of products requiring temperature-sensitive warehousing.

dehumidification kilns The development of dehumidification kilns at Mainfreight Whangarei serves to create a freight back-load in a region with a growing forestry resource. By approaching kiln-drying as an exercise in temperature-controlled warehousing, we have developed a market in contract drying of framing timber for sawmills, merchants and remanufacturers. At a capital cost of $0.4M, the kilns neighbour the freight terminal, where economies in labour and equipment usage provide a competitive advantage.

Mainfreight has a low-risk approach towards both new acquisitions and internal projects. By ensuring that the managers putting forward the ideas are committed to the project's success, it is possible to expand our sphere of door to door logistics activities.

Brendon King prepares another load of kiln dried timber.

lep international pty limited acquisition

In February 1997, Lep International (NZ) Limited acquired 100% of Lep International Pty Limited from Lep International Worldwide. The equity consideration was nominal, with certain undertakings to repay inter-company loans ($0.8M) over a deferred time period and assume term debt liabilities ($2.5M).

In return for this capital commitment, we gained:

- A branded branch network which has operations in Brisbane, Sydney, Melbourne, Adelaide and Perth;
- A wholesale air-freight forwarding operation, Air-freight Consolidators International (ACI), with operations in both Melbourne and Sydney;
- Owned premises in Sydney and Melbourne with market values in excess of A$2.5M;
- Approximately A$3.0M of out-sourced work available to Mainfreight Distribution Pty Limited; and
- Accessible tax losses of A$6.0M.

The business was purchased with a clear recovery plan:

1. Restructure management and accountability to the branch level;
2. Remove peripheral activities and attack unnecessary cost items;
3. Redevelop existing premises and invest in the people; and
4. Ensure that the goals are communicated to the team.

In less than six months, Mainfreight's input in to Lep Australia has driven its returns from dismal losses to a break-even proposition. By March 1999 we expect this subsidiary to be trading profitably.

where losses exist, profit lurks nearby.

Mainfreight's trans-Tasman Strategist, Greg Miller.

In an industry heavily weighted by paperwork, Mainfreight developed its own computerised freight tracking system in 1990. A long-term approach to research and development is central to our ongoing competitive advantage. By investing in proprietary information technology, we have locked in a lot of value that is keenly sought by both our customers and competitors.

mainfreight IT department Mainfreight's in-house IT department consists of ten IT personnel. Within this team are three graduates and two CBC qualified employees. Ninety percent of all IT requirements are serviced within this department with the remainder being outsourced through third party companies. The members of this team also make up the Mainfreight computer helpdesk that supports internal and external customers.

customers are 20% focussed on the physical freight and 80% on the information flow.

y2k compliance Concern over Year 2000 compliance is increasing as the new millennium approaches. Mainfreight is committed to being Year 2000 compliant by the end of 1998.

Description	Product	Compliance Date
Client Connote & Tracking System	Freman 32 (replaces DOS version)	July 1998
Client Telephone Freight Tracking System	Tracey	October 1998
Domestic Freight Forwarding System	Freight Management System	Compliant
International Freight Forwarding System	Data Freight 2000	November 1998
Warehousing & Distribution	MIMS	July 1998

it projects Although the current systems are operating satisfactorily we are looking to the future. As part of Mainfreight's ongoing commitment of enhancing customers information flow, Mainfreight launched four projects in 1998, encompassing a capital spend of over $1.0M:

- The development of Mainfreight's Inventory Management System (MIMS)
- Re-development and enhancement of present Track & Trace database.
- Customer Freight Management software – Freman 32
- International Freight System – Datafreight 2000

web technology The Mainfreight Java-based Web page, in operation since late 1996, allows customers to track any number of consignments at a time by simply scrolling back and forth. This system allows customers to send consignment note information by e-mail via the company's permanent, secure line, and then to track any conceivable event in the life of their consignments – 24 hours a day.

what's next? Currently under development are systems to enable full trans-Tasman Track & Trace functionality between Mainfreight and LEP systems, giving freight status updates by e-mail. This will increase system resilience and reduce waiting time to customers and staff.

visit us on http://www.mainfreight.co.nz

Bill O'Loughlin reviews weekly statistics.

Mainfreight continues to grow through a combination of new business initiatives and acquisitions. The plan developed last year has been implemented in some areas and refined in others.

one market trans-tasman Mainfreight continues to believe that the future development of the Group rests with strong linkages between New Zealand and Australia. The acquisition of Lep Australia, coupled with facilities development in Melbourne is consistent with this strategy. In 1999 we expect to further develop Mainfreight's trans-Tasman linkages through a combination of new acquisitions and existing business growth.

by investing in our people today, tomorrow's success is secured.

managed warehousing and facilities management We continue to grow our warehousing revenue base through organic opportunities. The 1999 financial year is expected to see a continuation in the trend towards warehouse out-sourcing. Real opportunities exist to grow this business via a consultative approach to new and existing customers.

education and recruitment Logistics is now regarded as a career with professional qualifications and a unique skill base. We will continue to recruit and attract suitable candidates today as potential leaders of our business for tomorrow.

parcels Opportunities to acquire parcel businesses were investigated by Mainfreight during 1998. The over-riding consideration in all of the businesses offered was price. Given the contestable nature of the parcel market, the prices sought and subsequently paid for parcel acquisitions in 1997/98 appeared high. Mainfreight continues to view this market as one worthy of investment, given its proximity to the core domestic freight forwarding product.

time definite services As the market demand for overnight and next day products grows, the use of existing freight modes needs to be reviewed. While it was once acceptable for a client to have five day freight transits inter-island, three days is now the norm. As Mainfreight customers seek later pick-up times and earlier deliveries, the requirement is to come up with time definite solutions to meet this demand.

Newly qualified B.Com storeman, Guy Farman.

The Directors are pleased to present this third published annual report of Mainfreight Limited.

activities There were no changes during the year in the principal activities of the Group as supplier of freight, warehousing and logistics services to customers in New Zealand and Australia.

financial result Consolidated sales for the year were $210.3M, up on the previous year by $47.5M (29.1%). Acquisitions contributed $40.0M. The net surplus after tax (before minorities) increased by 20.6%, from $6.3M to $7.6M. The result was satisfactory, given the obvious softening in the New Zealand economy. Comparisons to the results are set out in previous years' Statistics, page 38.

financial position The Group has maintained a strong financial position, with shareholders' equity of $42.0M, funding 46.8% of total assets. Earnings cover net interest on debt sixteen times. Net cash inflow from operations was $12.3M, a significant improvement on last year, following a strong focus on debtor management through the year. Net property and plant purchases of $13.4M and acquisition purchases of $5.3M saw cash outflows from investments increasing to $18.7M from $8.1M. Rights issue proceeds of $15.4M were used to repay loans of $5.5M and fund investment purchases. Cash inflows from financing activities increased from $1.4M in 1997 to $6.2M.

dividend An interim dividend of 2.5 cents per share was paid on 12 December 1997, fully imputed. A supplementary dividend of 0.44 cents per share was paid to non-resident shareholders with the interim dividend. A fully imputed final dividend of 3.0 cents per share, payable on 10 July 1998, is proposed together with a supplementary dividend of 0.53 cents per share for non-resident shareholders. The final dividend will be paid on 10 July 1998 to shareholders on the register of members at 4.00pm on 3 July 1998.

statutory information Additional information is set out on pages 34 to 37 including directors' interests as required by the Companies Act 1993.

directors Mr C.J. Fernyhough and the Hon. Richard Prebble retire by rotation and are available for re-election.

audit The Company's auditors, Arthur Andersen, will continue in office in accordance with the Companies Act 1993. The Company has a formally constituted Audit Committee.

reporting and communications Mainfreight continues to support high levels of public company disclosure. The first quarter result to 30 June 1998 will be released on 13 August 1998.

outlook The Directors are satisfied with the direction and development of the Group. While we view the next 12 months as a period of difficulty for the New Zealand economy, this should not deter Mainfreight from making solid gains.

For and on behalf of the Board

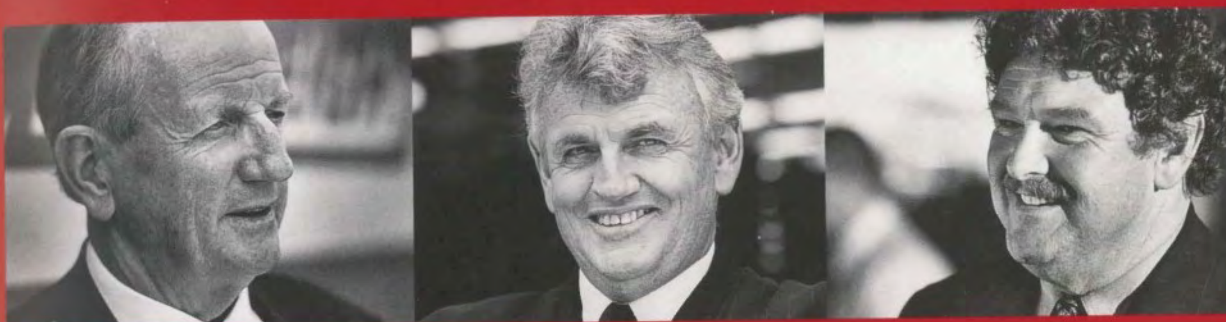
30 June 1998

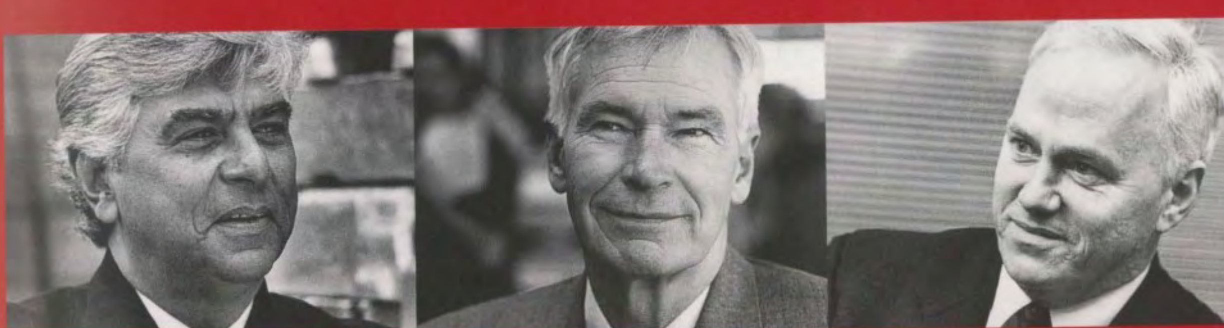
D Rowlands

Don Rowlands, Chairman

Carl Howard-Smith, Director

Don Rowlands, CBE, Chairman **Bruce Plested**, ACA, Managing Director **Neil Graham**, QBE





Carl Howard-Smith, LLB **John Fernyhough**, LLM (Hons) (Victoria), Jr. Dur (Chicago).

The Hon. Richard Prebble, BA LLB (Hons) CBE.

financials contents

statement of financial performance for the year ended 31st march 1998

		Group		Parent	
		1998	1997	1998	1997
	Notes	$000	$000	$000	$000
Operating Revenue		$210,322	$162,872	$84,419	$77,314
Surplus Before Taxation for the Year	2	11,639	9,794	8,671	7,211
Income Tax Expense	4	4,035	3,489	2,270	2,033
Surplus After Taxation for the Year		7,604	6,305	6,401	5,178
Minority Interest in Profits of Subsidiaries		(346)	(352)	–	–
NET AND OPERATING SURPLUS FOR THE YEAR		$7,258	$5,953	$6,401	$5,178

statement of movements in equity for the year ended 31st march 1998

Equity at the Beginning of the Year		24,097	20,823	21,422	19,132
Net Surplus for the Year		7,258	5,953	6,401	5,178
Total Recognised Revenues and Expenses for the Year		7,258	5,953	6,401	5,178
Contributions from Owners (Rights Issue and ESOP)	3	15,581	405	15,581	405
Foreign Currency Translation Reserve		108	–	–	–
Movements in Minority Interest during the Year		(706)	209	–	–
Supplementary Dividends		(13)	(15)	(13)	(15)
Dividends Paid and Proposed		(3,971)	(3,293)	(3,971)	(3,293)
Foreign Investor Tax Credit		13	15	13	15
EQUITY AT END OF THE YEAR		$42,367	$24,097	$39,433	$21,422

The accompanying notes form an integral part of these financial statements.

statement of financial position as at 31st march 1998

	Notes	Group 1998 $000	Group 1997 $000	Parent 1998 $000	Parent 1997 $000
Shareholder's Equity					
Share Capital	3	34,961	19,380	34,961	19,380
Accumulated Surplus		7,064	3,669	4,472	2,042
Shareholder's Equity		42,025	23,049	39,433	21,422
Minority Interest		342	1,048	–	–
TOTAL EQUITY		42,367	24,097	39,433	21,422
Non-current Liabilities					
Bank Term Loan	5	12,462	14,100	12,462	14,100
Finance Lease Liability	6	–	2,040	–	1,436
		12,462	16,140	12,462	15,536
Current Liabilities					
Bank Overdraft		901	1,320	64	1,857
Intercompany Advances	16	–	–	3,380	–
Creditors and Accruals		28,843	18,275	7,595	8,062
Intercompany Creditors	16	–	–	337	78
Employee Entitlements		3,035	2,116	1,325	1,170
Provision for Taxation		–	208	–	9
Provision for Dividend		2,169	1,793	2,169	1,793
Finance Lease Liability	6	46	842	–	786
		34,994	24,554	14,870	13,755
TOTAL LIABILITIES AND EQUITY		$89,823	$64,791	$66,765	$50,713
Non-current Assets					
Fixed Assets	7	47,828	34,732	38,468	28,578
Goodwill	8	6,495	2,852	–	–
Investments in Subsidiaries	10	–	–	12,933	8,534
Current Assets					
Short Term Deposits		1,500	2,080	–	180
Intercompany Advances	16	–	–	2,717	–
Trade Debtors		31,559	23,264	8,192	9,522
Intercompany Debtors	16	–	–	1,190	540
Tax Paid in Advance		208	–	189	–
Dividend Receivable		–	–	1,500	1,500
Other Debtors		1,288	876	1,027	1,328
Employee Share Purchase	9	430	326	435	326
Deferred Tax Asset	4	515	661	114	205
		35,500	27,207	15,364	13,601
TOTAL ASSETS		$89,823	$64,791	$66,765	$50,713

For and on behalf of the Board

Dated 30 June 1998 D. D. Rowlands CBE, Chairman C. G. O. Howard-Smith, Director

The accompanying notes form an integral part of these financial statements.

statement of cash flows for the year ended 31st march 1998

	Notes	Group 1998 $000	Group 1997 $000	Parent 1998 $000	Parent 1997 $000
Cash Flows From Operating Activities					
Cash was provided from:					
Receipts from Customers		211,456	161,740	85,023	75,841
Interest Received		144	199	134	113
Dividend Received		–	–	1,764	–
		211,600	161,939	86,921	75,954
Cash was dispersed to:					
Payments to Suppliers		(194,073)	(152,196)	(75,006)	(70,094)
Interest Paid		(926)	(1,271)	(1,068)	(1,260)
Income and Other Taxes Paid		(4,287)	(3,843)	(2,377)	(2,151)
		(199,286)	(157,310)	(78,451)	(73,505)
NET CASH FLOWS FROM OPERATING ACTIVITIES	14	$12,314	$4,629	$8,470	$2,449
Cash Flows From Investing Activities					
Cash was provided from:					
Proceeds from Sale of Assets		2,240	440	1,958	394
Repayments by Employees and Contractors		38	80	37	80
Cash from Acquisitions		–	213	–	–
		2,278	733	1,995	474
Cash was applied to:					
Purchase of Fixed Assets		(15,641)	(4,964)	(14,741)	(7,587)
Advances to Employees and Contractors		(54)	(16)	(47)	(16)
Bank Overdraft from Acquisitions		(2,513)	–	–	–
Purchase of Shares		(2,749)	(3,890)	(2,649)	(3,400)
		(20,957)	(8,870)	(17,437)	(11,003)
NET CASH FLOWS FROM INVESTING ACTIVITIES		$(18,679)	$(8,137)	$(15,442)	$(10,529)
Cash Flows From Financing Activities					
Cash was provided from:					
Proceeds of Long Term Loan		–	4,100	–	6,323
Advances from Subsidiary Companies		–	–	2,635	658
Employee Share Scheme	9	177	79	172	79
Proceed of Rights Issue		15,392	–	15,392	–
		15,569	4,179	18,199	7,060
Cash was applied to:					
Dividend Paid to Shareholders		(3,595)	(1,500)	(3,595)	(1,500)
Dividend Paid to Minority Interest Shareholder		(264)	(100)	–	–
Repayment of Loans		(5,506)	(1,144)	(3,861)	–
Advances to Subsidiary Companies		–	–	(2,158)	–
		(9,365)	(2,744)	(9,614)	(1,500)
NET CASH FLOWS FROM FINANCING ACTIVITIES		$6,204	$1,435	$8,585	$5,560
NET (DECREASE) INCREASE IN CASH HELD		(161)	(2,073)	1,613	(2,520)
ADD OPENING CASH BROUGHT FORWARD		760	2,833	(1,677)	843
ENDING CASH CARRIED FORWARD		$599	$760	$(64)	$(1,677)
Comprised					
Short Term Deposits		1,500	2,080	–	180
Bank Overdraft		(901)	(1,320)	(64)	(1,857)
		$599	$760	$(64)	$(1,677)

The accompanying notes form an integral part of these financial statements.

01 statement of accounting policies

The reporting entity is Mainfreight Limited. These financial statements have been prepared under the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The measurement base adopted is that of historical cost.

(i) revenue

Revenue shown in the Statement of Financial Performance comprises all amounts received and receivable by the Group for services supplied to customers in the ordinary course of business.This includes revenue for all contracted deliveries for which the goods have been collected from the customer. Revenue is stated exclusive of goods and services tax.

(ii) principles of consolidation

The consolidated financial statements are prepared from the audited Financial Statements of the Parent Company and its subsidiaries as at 31 March 1998. All significant balances and transactions between Group Companies are eliminated on consolidation using the purchase method. Where subsidiaries are acquired during the year, their results are included only from the date of acquisition, while for subsidiaries disposed of during the year, their results are included to the date of disposal.

(iii) fixed assets

All assets are recorded at cost.

(iv) depreciation

Depreciation is provided using the diminishing value method at rates calculated to allocate the assets' cost, less estimated residual value, over their estimated useful lives. Rates are determined generally on the basis of tax legislation.

Major depreciation rates are:	per annum
• Buildings	4%
• Leasehold Improvements	9.5%
• Furniture & Fittings	12% to 20%
• Motor Cars	26%
• Plant & Equipment	10% to 25%
• Computer Hardware	33% to 40%
• Computer Software	40%

(v) debtors

Debtors are stated at estimated realisable value after providing against debts where collection is doubtful.

(vi) taxation

The taxation charge against surplus for the year is the estimated total liability in respect of that surplus after allowance for permanent differences. The Group follows the liability method of accounting for deferred taxation, on a comprehensive basis, in that amounts provided are calculated at the current rate of company taxation. Future taxation benefits attributable to tax losses and debit balances in the deferred tax account are recognised only to the extent of the accumulated net credits arising from timing differences in the deferred taxation account and where there is virtual certainty of realisation.

(vii) foreign currencies

Assets and liabilities expressed in foreign currencies are converted to New Zealand dollars at the rate of exchange ruling at balance date. Surpluses and deficits realised on exchange are recognised in the period in which they occur by way of a credit or charge in the Statement of Financial Performance. Unrealised surpluses and deficits are taken to the Foreign Currency Translation Reserve.

(viii) leases

Finance leases, which effectively transfer to the entity substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the present value of the minimum lease payments. The leased assets and corresponding liabilities are disclosed and the leased assets are amortised over the period the entity is expected to benefit from their use. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.

(ix) goodwill

Goodwill represents the excess of the purchase consideration over the fair value of net tangible and identifiable intangible assets at the time of acquisition of a business. Goodwill is amortised by the straight line method over the period during which benefits are expected to be received. This is a maximum of 10 years.

(x) investments

Long term investments are stated at cost, and investments held for resale are stated at the lower of cost and net realisable value.

(xi) financial instruments

Financial instruments, with off-balance sheet risk, have been entered into for the primary purpose of reducing the exposure to fluctuations of foreign currency. The financial instruments are subject to the risk that market values may change subsequent to acquisition. However, such changes would generally be offset by an opposite change in value of the item being hedged.

(xii) changes in accounting policies

There have been no changes in accounting policices during the year. All policies have been applied on a consistent basis with previous years.

02 surplus before taxation

The Surplus before Taxation is stated:	Group 1998 $000	Group 1997 $000	Parent 1998 $000	Parent 1997 $000
After Charging:				
Audit Fees and Expenses	149	115	67	70
Other Fees Paid to Auditors	31	93	31	93
Depreciation	3,000	2,411	1,844	1,455
Directors Fees	150	157	150	157
Flotation Costs	–	525	–	525
Foreign Currency Losses (Gains)	45	(174)	92	–
Interest: Fixed Loans	772	1,084	772	1,084
Finance Leases	122	61	72	–
Other Interest	32	126	224	176
Bad Debts Written Off	401	101	111	125
Change in Bad Debt Provision	24	52	24	(24)
Donations	52	49	52	49
(Surplus) Deficit on Disposal of Assets	10	(45)	(12)	(45)
Rental and Operating Lease Costs	5,918	4,374	3,056	2,411
After Crediting:				
Interest Income	149	198	139	118
Rental Income	842	805	1,539	1,319
Dividend Received	–	–	1,764	1,600

03 share capital

Authorised, Issued and Paid Up Capital	34,961	19,380	34,961	19,380
72,297,766 Ordinary Shares				

On 7 August 1997 a renounceable pro rata rights issue of 12,313,626 new ordinary shares for 125 cents per share was made.

Issue costs of $92,000 have been deducted in determining the movement in equity.

On 11 December 1997 the Company issued 216,000 ordinary shares to the Trustees of the Mainfreight Ltd Staff Share Purchase Scheme for 130 cents per share.

04 taxation

	Group 1998 $000	Group 1997 $000	Parent 1998 $000	Parent 1997 $000
Surplus Before Taxation	11,639	9,794	8,671	7,211
Prima Facie Taxation at 33% (31 March 1997 33%)	3,841	3,232	2,861	2,380
Adjusted by the tax effect of:				
Non-assessable Dividend Income	–	–	(582)	(528)
Other Non-assessable Revenues	(36)	(13)	(36)	(13)
Non-deductible Expenses	230	270	27	194
	4,035	3,489	2,270	2,033
Represented by:				
Current Tax	4,550	4,150	2,384	2,238
Deferred Tax	(515)	(661)	(114)	(205)
	4,035	3,489	2,270	2,033
Deferred Tax Account				
Opening Balance	(661)	(156)	(205)	(96)
Adjusted for the tax effect of:				
Movements in Provision for Doubtful Debts	–	(51)	(8)	1
Difference Between Accounting and Tax Accumulated Depreciation	23	(151)	–	–
Movement in Holiday Pay and Bonus Accrual	(30)	(59)	1	(15)
Uncompleted Sale and Linehaul	141	(145)	98	(95)
ACC Accrued	15	(99)	–	–
Movements in Provision for Credits	(3)	–	–	–
Closing Balance	(515)	(661)	(114)	(205)
Imputation Credit Account				
Imputation and Dividend Withholding Payment Credits				
Opening Balance	2,784	7,202	1,461	6,785
Credits Distributed During the Year	(2,770)	(7,941)	(1,771)	(7,523)
Credits Received During the Year	874	55	873	49
Tax Payments Made	4,115	3,468	2,358	2,150
Closing Balance	5,003	2,784	2,921	1,461
Representing Credits Available to Owners of the Group at Balance Date:	5,003	2,784	2,921	1,461

05 term liabilities

Term Liabilities fall due for repayment in the following periods:

	Group		Parent	
	1998 $000	1997 $000	1998 $000	1997 $000
Current	–	–	–	–
Non-current	12,462	14,100	12,462	14,100
	12,462	14,100	12,462	14,100

A long term facility with the Westpac Banking Corporation with a limit of $20,000,000 remains in place secured by debenture and cross company guarantees. The facility agreement was varied on18 September 1997 allowing part of the facility to be drawn in Australian currency up to a limit of $Australian 5,000,000.Principal is repayable in August 1999 unless the facility is extended.

Interest was payable at the average rate of 7.96% per annum.

06 leases

At balance date the Group and company had the following lease commitments:

Finance Lease Liabilities:

Payable:				
• Not later than one year	47	1,135	–	991
• Later than one year but not later than two	–	1,166	–	1,022
• Later than two years but not later than five	–	1,165	–	557
• After five years	–	–	–	–
Minimum Lease Payments	47	3,466	–	2,570
Less Future Finance Charges	(1)	(584)	–	(348)
	46	2,882	–	2,222
Classified in the Statement of Financial Position as:				
Current	46	842	–	786
Non-current	–	2,040	–	1,436
	46	2,882	–	2,222
Operating Lease Commitments:				
• Not later than one year	5,733	3,833	2,175	2,237
• Later than one year but not later than two years	3,899	2,081	1,499	1,420
• Later than two years but not later than five years	3,769	1,624	1,438	1,058
• After five years	1,096	1,167	832	911
	14,497	8,705	5,944	5,626

07 fixed assets

group

Asset Description	1998 Cost $000	1998 Accum Depn $000	1998 Book Value $000	1997 Cost $000	1997 Accum Depn $000	1997 Book Value $000
Freehold Land	10,555	–	10,555	5,584	–	5,584
Buildings	25,925	2,705	23,220	18,971	2,120	16,851
Leasehold Improvements	5,617	892	4,725	2,281	663	1,618
Plant, Vehicles and Equipment						
• Owned	23,780	14,518	9,262	17,231	10,152	7,079
• Finance Leases	130	64	66	3,642	42	3,600
Totals	66,007	18,179	47,828	47,709	12,977	34,732

At 31 March 1998 Registered Valuers Darroch and Co Ltd and Knight Frank (Vic) Pty Ltd performed a valuation of the Group's land and buildings at $43,502,000 (March 1997 $30,490,000). The valuations were carried out on the following basis:

Vacant Properties : Open market value

Napier /Palmerston North /Gracefield Rd, Wellington : Depreciated replacement cost

Others : Existing use value

In addition the directors valued two properties in Lep International Pty Ltd not covered by these valuations at $3,037,000 (March 1997 Nil).

parent

Asset Description	1998 Cost $000	1998 Accum Depn $000	1998 Book Value $000	1997 Cost $000	1997 Accum Depn $000	1997 Book Value $000
Freehold Land	9,057	–	9,057	5,584	–	5,584
Buildings	23,104	2,442	20,662	17,807	2,007	15,800
Leasehold Improvements	3,701	429	3,272	598	328	270
Plant, Vehicles and Equipment						
• Owned	12,096	6,619	5,477	9,591	5,626	3,965
• Finance Leases	–	–	–	2,959	–	2,959
Totals	47,958	9,490	38,468	36,539	7,961	28,578

At 31 March 1998 Registered Valuers Darroch and Co Ltd and Knight Frank (Vic) Pty Ltd performed a valuation of the Company's land and buildings at $41,062,000 (March 1997 $25,624,000). The valuations were carried out on the following basis:

Vacant Properties : Open market value

Napier /Palmerston North /Gracefield Rd, Wellington : Depreciated replacement cost

Others : Existing use value

08 goodwill

	group 1998 $000	group 1997 $000	Parent 1998 $000	Parent 1997 $000
Opening Balance	2,852	234	–	–
Amounts Paid for Acquisitions During the Year in Excess of Their Net Tangible Assets	4,098	2,773	–	–
Goodwill Amortised over Period	(455)	(155)	–	–
Closing Balance	6,495	2,852	–	–

Goodwill arose during the year from the purchase of:				
Trade Air Ocean Ltd (100% of shares)	1,981	–	–	–
Lep International Pty Ltd (75% of shares)	725	–	–	–
Prochem (100% of Business Assets)	100	–	–	–
Mainfreight International Ltd (50% of shares)	1,292	–	–	–
Mainfreight Distribution Pty Ltd Share Buyback (20% of shares)	–	235	–	–
Lep International (NZ) Ltd (75% of shares)	–	1,758	–	–
Combined Haulage Ltd / Senco Haulage Ltd (100% of shares)	–	745	–	–
G & L Casey (100% of Business Assets)	–	35	–	–
	4,098	2,773	–	–

09 employee share purchase scheme

On 11 December 1997 the Company issued 216,000 ordinary shares to the Trustees of the Mainfreight Ltd Staff Share Purchase Scheme for 130 cents per share. Fulltime staff with a minimum of 1 years continuous service who had not been issued shares under the previous staff share issue were entitled to participate in the scheme. 120 staff took up the offer and were issued 1800 shares each. The purchase price is repayable over 3 years. The shares issued amounted to 0.3% of issued capital. The power to control the trustees of the scheme is held by the Company's Board of Directors.

Opening Balance	326	–	326	–
Value of Shares Issued During the Year	281	405	281	405
Value of Shares Sold During the Year	(63)	–	(63)	–
Staff Loan Repayment During the Year	(114)	(79)	(114)	(79)
Closing Balance	430	326	430	326

10 investment in subsidiary companies

The Parent Company's investment in subsidiary companies comprised:

	1998 $000	1997 $000
Shares at Cost	12,934	8,534

	Balance Date	Principle Activity	Percentage Shareholding	
Subsidiary Companies Include:				
Mainfreight International Limited	31 March	International Freight Forwarding	100%	50%
Mainfreight Distribution Pty Limited	31 March	Freight Forwarding	100%	100%
Daily Freight (1994) Limited	31 March	Freight Forwarding	100%	100%
Lep International (NZ) Ltd	31 March	International Freight Forwarding	75%	75%
Combined Haulage Ltd	31 March	Freight Forwarding	100%	100%
Senco Haulage Ltd	31 March	Freight Forwarding	100%	100%
Trade Air Ocean Limited	30 September	International Freight Forwarding	100%	Nil
Lep International Pty Ltd	31 December	International Freight Forwarding	75%	Nil

On 20 August 1997 Daily Freight (1994) Ltd acquired the business assets of Prochem Ltd for $100,000. On 4 September 1997 Mainfreight Ltd acquired the business assets of D.J. McGregor Ltd for $200,000. On 1 October 1997 Mainfreight Ltd acquired 560,000 shares in Trade Air Ocean Ltd for $2,560,000 representing 100% of shares.

On 28 November 1997 Mainfreight Ltd acquired the remaining 423,303 shares in Mainfreight International Limited for $89,000 and property with a value of $1,750,000. On 27 February 1998 Lep International (NZ) Ltd acquired 2,367,529 shares in Lep International Pty Ltd for $1 representing 100% of shares.

The increase in assets and liabilities as a result of acquisition were:

	Lep International	Trade Air	Mainfreight International	TOTAL
MINORITY INTEREST	(241)	–	(547)	(788)
Bank Overdraft	2,383	132	–	2,515
Creditors & Accruals	6,682	1,514	–	8,196
Employee Entitlements	220	–	–	220
Provision for Taxation	–	2	–	2
Loans	2,785	–	–	2,785
CURRENT LIABILITIES	12,070	1,648	–	13,718
TOTAL LIABILITIES AND EQUITY	11,829	1,648	(547)	12,930
FIXED ASSETS	3,287	373	–	3,660
Trade Debtors	6,487	1,835	–	8,322
Other Debtors	1,330	–	–	1,330
Deferred Tax Asset	–	19	–	19
CURRENT ASSETS	7,817	1,854	–	9,671
TOTAL ASSETS	11,104	2,227	–	13,331
NET ASSETS	(725)	579	547	401

Goodwill arising as a result of these acquisitions is shown in note 8.

11 capital commitments and contingent liabilities

The Group and Company had the following capital commitments at 31st March 1998 (31st March 1997 Nil):

- Melbourne Transport Depot 55,349
- Lep Auckland Transport Depot 112,922

The following guarantees are given by the Company in favour of Westpac Banking Corporation:

- In respect of Mainfreight Distribution Pty Limited – all obligations.
- In respect of Daily Freight (1994) Limited – all obligations.

12 subsequent events

On 18 May 1998 certain senior executives were offered options to subscribe for shares. On exercise each option entitles the executive to subscribe for one fully paid ordinary share at an exercise price of 170 cents. The options are exercisable between 1 June 2001 and 1 June 2003. If all options are exercised new shares will be issued which, based on Mainfreight's existing share capital, will represent approximately 1.25% of the issued capital on a fully diluted basis. The options carry the right to participate in bonus issues or rights issues made pro rata to all shareholders as if the options had been exercised.

13 segmental reporting

The Group operates in the domestic freight and international freight industries. The Group operates predominantly in two geographical segments – New Zealand and Australia. The basis for intersegment pricing is at normal trade price.

Industrial and Geographical Segments

	N.Z. Domestic	N.Z. Internat.	Australia Domestic	Australia Internat.	Elimin-ations	1998 $000 Consolidated
Operating Revenue:						
• Sales to Customers outside the Group	113,576	85,006	7,397	4,343	–	210,322
• Intersegment Sales	2,112	2,399	385	302	(5,198)	–
Total Revenue	115,688	87,405	7,782	4,645	(5,198)	210,322
Segment and Group Result	9,473	2,112	79	(25)	–	11,639
Segment and Total Assets	68,439	16,099	2,145	11,892	(8,752)	89,823

						1997 $000
Operating Revenue:						
• Sales to Customers outside the Group	104,583	52,131	6,158	–	–	162,872
• Intersegment Sales	765	136	169	–	(1,070)	–
Total Revenue	105,348	52,267	6,327	–	(1,070)	162,872
Segment and Group Result	8,006	1,348	440	–	–	9,794
Segment and Total Assets	51,726	11,192	2,110	–	(237)	64,791

14 reconciliation of cash flows with reported net surplus

	Group 1998 $000	Group 1997 $000	Parent 1998 $000	Parent 1997 $000
Net Surplus/Deficit	7,604	6,305	6,401	5,178
Non-cash Items:				
Depreciation	3,000	2,411	1,844	1,455
Amortisation of Goodwill	455	155	–	–
(Increase) Decrease in Deferred Tax Asset	165	(163)	91	(109)
	11,224	8,708	8,336	6,524
Add (less) movements in other working capital items, net of effect of acquisitions:				
(Increase) Decrease in Accounts Receivable	945	(2,188)	981	(1,657)
Increase (decrease) in Accounts Payable	406	(1,779)	(838)	(975)
Increase (decrease) in Interest Payable	127	23	127	23
(Increase) decrease in Interest Receivable	–	(1)	–	(1)
(Increase) decrease in Dividend Receivable	–	–	–	(1,500)
Increase (decrease) in Taxation Payable	(418)	(190)	(198)	(9)
Increase (decrease) in Net GST	20	101	74	89
Less Item Classified as Investing Activity:				
Net (surplus) Deficit on Sale of Fixed Assets	10	(45)	(12)	(45)
Net Cash Inflow From Operating Activities	12,314	4,629	8,470	2,449

15 financial instruments

At balance date the Group and Company had the following financial assets; cash and bank balances, accounts receivable (trade and sundry), related party receivables and the following financial liabilities; accounts payable (trade and sundry), bank overdraft, related party payables, taxation payable, dividends payable.

credit risk

The values attached to each financial asset in the Statement of Financial Position represents the maximum credit risk.

There are no financial assets not disclosed in the Statement of Financial Position.

No collateral is held with respect to any financial assets. There are no significant concentrations of credit risk.

fair value

The fair value of all financial instruments recognised in the Statement of Financial Position is their stated value.

There are no financial instruments not disclosed in the Statement of Financial Position.

currency and interest rate risk

The interest rate on the bank account (whilst in overdraft) is variable. The company seeks to obtain the most competitive market rate of interest at all times.

At 31 March 1998 the following financial instruments are denominated in foreign currencies, 37% of accounts payable (trade), 34% of related party receivables and 28% of accounts receivable (trade).The Company monitors exchange rate movements.

16 related parties

The ultimate holding company is Mainfreight Limited.

In addition to transactions disclosed elsewhere in these financial statements, during the period the Company transacted with the following related parties:

Name of Related Party	Nature of Relationship	Type of Transactions	1998 Costs $000	1997 Costs $000
C. Howard-Smith	Director	Legal & Trustee Fees	94	193
N. Graham	Director	Trustee Fees	10	–
			104	193

Related Party Receivables Outstanding at Balance Date:

Name of Related Party	Type of Transaction	Terms of Settlement	Balance Receivable $000	Balance Receivable $000
Daily Freight (1994) Ltd	Trade	30 Days	673	392
Mainfreight International Ltd	Trade	30 Days	282	66
Lep International (NZ) Ltd	Trade	30 Days	221	82
Trade Air Ocean Ltd	Trade	30 Days	14	–
Mainfreight International Ltd	Advance	On Call	424	–
Lep International (NZ) Ltd	Advance	On Call	559	–
Mainfreight Distribution Pty Ltd	Advance	On Call	534	–
Lep International Pty Ltd	Advance	On Call	1,200	–
			3,907	540

Related Party Payables Outstanding at Balance Date:

Name of Related Party	Type of Transaction	Terms of Settlement	Balance Payable $000	Balance Payable $000
Daily Freight (1994) Ltd	Trade	30 Days	39	70
Mainfreight International Ltd	Trade	30 Days	3	2
Lep International (NZ) Ltd	Trade	30 Days	295	6
Daily Freight (1994) Ltd	Advance	On Call	1,660	–
Lep International (NZ) Ltd	Advance	On Call	1,720	–
			3,717	78

No related party debts have been written off or forgiven during the period (31 March 1997 nil).

In addition to the previous the Group transacted with the following related parties:

Name of Related Party	Nature of Relationship	Type of Transactions	Costs $000	Costs $000
C. Howard-Smith	Director	Legal Fees	30	32

Name of Related Party	Type of Transaction	Terms of Settlement	Balance Payable $000	Balance Payable $000
Lep (New Zealand) Ltd	Advance	On Call	178	160

Lep (New Zealand) Ltd is the minority shareholder in Lep International (NZ) Ltd.

ARTHUR ANDERSEN

Chartered Accountants
& Business Advisors

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Arthur Andersen Tower
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(64 9) 302 0280
(64 9) 302 0370 Assurance Fax
(64 9) 302 0916 Tax & Legal Fax
(64 9) 302 0915 Business Consulting Fax

Auditors' Report

To the Members of
Mainfreight Limited

We have audited the accompanying financial statements of Mainfreight Limited ("the Company") set out on pages 19 to 32. The financial statements provide information about the past financial performance and financial position of Mainfreight Limited and subsidiaries ("the Group") and the Company as at 31 March 1998. This information is stated in accordance with the accounting policies set out on pages 22 and 23.

Directors' Responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Group and Company as at 31 March 1998 and of the results of their operations and cash flows for the year then ended.

Auditors' Responsibilities

It is our responsibility to express and independent opinion of the financial statements presented by the Directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Company's and Group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary. We obtained sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm carries out other assignments for the Group in the area of taxation advice and special consultancy projects. The firm has no other interests in the Group.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements referred to above:
  - a) comply with generally accepted accounting practice; and
  - b) give a true and fair view of the financial position of the Company and the Group as at 31 March 1998 and the results of operations and cash flows for the year then ended.

Our audit was completed on 30 June 1998 and our unqualified opinion is expressed as at that date.

Arthur Andersen

Auckland

statutory information

directors

The following people held office or ceased to hold office as Director during the year and received the following remuneration including benefits during the year.

Name	Remuneration	Current Director or Date Resigned
Don Rowlands	$50,000	Current
Bruce Plested	$211,000	Current
Neil Graham*	$25,000	Current
Carl Howard-Smith*	$25,000	Current
John Fernyhough	$25,000	Current
Richard Prebble	$25,000	Current

* Excludes legal and trustee fees (refer to note 16 to the Financial Statements).

employees' remuneration

The Group paid remuneration including benefits to 19 employees (other than directors) during the year in excess of $100,000 in the following bands:

Remuneration	1998 Number of Employees	1997 Number of Employees
$100,000 – $110,000	4	3
$110,000 – $120,000	3	5
$120,000 – $130,000	3	2
$130,000 – $140,000	2	–
$140,000 – $150,000	3	–
$150,000 – $160,000	2	4
$160,000 – $170,000	2	–
	19	14

donations and auditors' fees

Donations and auditors' fees are set out in note 2 of the Financial Statements. The company has a formally constituted Audit Committee comprising of Carl Howard-Smith and Richard Prebble.

minority veto provisions

The Company has adopted"minority veto"provisions in it's constitution.

statutory information

directors' shareholdings at balance date

	1998	1,997
BG Plested		
• Beneficially owned	22,643,567	22,643,567
• Held by associated persons	220,100	401,700
NLGraham		
• Beneficially owned	7,005,223	7,005,223
CG Howard-Smith		
• Not beneficially owned	613,120	–
• Held by associated persons	50,000	–
NL Graham & CG Howard-Smith		
• Not beneficially owned	–	470,560
DD Rowlands		
• Beneficially owned	142,000	35,000
CJ Fernyhough		
• Beneficially owned	100,000	–
• Held by associated persons	126,300	–
TOTAL	30,674,010	30,556,050

substantial security holders

The following information is given pursuant to Section 26 of the Securities Amendment Act 1988. The following are recorded by the Company as at 3 June 1998 as Substantial Security Holders in the Company, and have declared the following relevant interest in voting securities under the Securities Amendment Act 1988:

BG Plested	22,893,567
NL Graham	7,005,223
Tower Corporation	5,366,240
TOTAL on Issue	72,297,766

statutory information

largest security holders as at 3 june 1998

BG Plested	22,893,567	31.67%
NL Graham	7,005,223	9.69%
Tower Corporation	5,366,240	7.42%
ABN Amro Nominees Ltd	3,765,300	5.21%
National Mutual Life Assurance of Australasia Ltd	3,582,376	4.96%
Trustees Executors and Agency Company of New Zealand Ltd	3,151,952	4.36%
Guardian Assurance Ltd	2,700,000	3.73%
AMP Society	2,662,650	3.68%
Premier Nominees Ltd	2,032,050	2.81%
Accident Rehabilitation & Compensation Insurance Corporation	1,941,300	2.69%
The NZ Guardian Trust Co Ltd	860,880	1.19%
Sun Alliance Life Ltd	695,480	0.96%
Sheath Holdings Ltd	682,600	0.94%
Superannuation Investment Ltd	660,000	0.91%
Mainfreight Team Share Purchase Trust	613,120	0.85%
Portfolio Custodian Ltd	533,500	0.74%
Athene Nominees Ltd	480,000	0.66%
NZCT Nominees Ltd	429,744	0.59%
Public Nominees	422,000	0.58%
Sovereign Superannuation Funds Ltd	244,800	0.34%

spread of security holders as at 3 june 1998

Size of Shareholding	Number of Holders	%	Total Number Held	%
1 – 999	153	9.49%	77,272	0.11%
1,000 – 4,999	872	54.06%	1,913,056	2.65%
5,000 – 9,999	293	18.16%	1,925,988	2.66%
10,000 – 49,999	253	15.69%	4,181,252	5.78%
50,000 – 99,999	15	0.93%	892,680	1.23%
100,000 – 999,999	20	1.24%	4,787,566	6.62%
1,000,000 – PLUS	7	0.43%	58,519,952	80.94%
TOTAL	1,613	100.00%	72,297,766	100.00%

interests register

Name of Director or other Person having Interest	Details of Interest	Date Interest Disclosed
Bruce Plested	Sold 2,013,956 rights to one for five rights issue for $0.48 per right.	14 July 1997
	Sold 964,757 rights to one for five rights issue for $0.59 per right.	23 July 1997
Neil Graham	Sold 1,401,044 rights to one for five rights issue for $0.48 per right.	14 July 1997
	Resigned as trustee of Employee Share Option Purchase Scheme known as the Mainfreight Team Share Purchase Trust.	11 December 1997
Richard Prebble	Sold 100,000 rights to one for five rights issue for $0.60 per right.	21 July 1997
Carl Howard-Smith	Exercised one for five rights issue and acquired 100,000 shares on 500,000 options held.	7 August 1997
	Exercised one for five rights issue and acquired 1,820 shares on 9,100 shares held.	
	Purchase price was $1.25 per share.	
	Sold 10,920 shares at $1.90 per share.	15 August 1997
	Sold 40,000 shares at $2.05 per share.	22 September 1997
	Sold 10,000 shares at $1.70 per share.	9 February 1998
John Fernyhough	Exercised one for five rights issue and acquired 100,000 shares on 500,000 options held.	7 August 1997
	Purchase price was $1.25 per share.	
Don Rowlands	Exercised one for five rights issue and acquired 100,000 shares on 500,000 options held.	7 August 1997
	Exercised one for five rights issue and acquired 7,000 shares on 35,000 shares held.	
	Purchase price was $1.25 per share.	

statistics

The table below provides a summary of key performance and financial statistics.

	Notes	1998 ($000's)	1997 ($000's)	1996 ($000's)	1995 ($000's)	1994 ($000's)
Net Sales		210,322	162,872	130,842	130,527	76,627
Surplus before Abnormals,Interest & Tax		12,565	11,584	8,997	7,361	4,948
Abnormals	1	–	525	122	1,196	402
EBIT	2	12,565	11,059	8,875	6,165	4,546
Net Interest Cost		777	1,073	1,085	888	96
Net Surplus (NPAT)	3	7,258	5,953	4,769	3,315	2,646
Cashflow	4	11,059	8,871	7,326	5,699	3,852
Net Tangible Assets	5	35,530	20,197	19,750	16,215	14,900
Net Debt	6	11,909	16,222	7,236	7,405	11,454
Total Assets		89,823	64,791	45,105	41,079	35,905
EBIT Margin (before Abnormals) (%)		6.0	7.0	6.9	5.6	6.5
Equity Ratio (%)	7	39.6	31.2	43.8	39.5	41.5
Return on NTA (%)	8	20.4	29.5	24.1	20.4	17.8
Net Interest Cover (x)	9	16.29	10.80	8.29	8.29	51.54
Earnings per Share (cps)	10	10.04	8.23	6.60	4.59	3.66
Adjusted Earnings per Share (cps)	10,11	10.04	8.96	6.77	6.24	4.22
Cashflow per Share (cps)	10	15.30	12.27	10.13	7.88	5.33
NTA per Share (cps)	10	49.27	27.94	27.32	22.43	20.61

notes

1. Abnormal items for the years ended 31 March 1996 and 31 March 1997 relate to flotation costs.Abnormal items for the year ended 31 March 1994 related to due diligence costs with respect to an acquisition which did not proceed, and in the year ended 31 March 1995 related to restructuring costs on the purchase of Daily Freight.
2. EBIT is defined as earnings before interest and tax.
3. Net Surplus (NPAT) is net profit after tax, abnormals and minorities but before dividends.
4. Cashflow is defined as NPAT plus amortisation of goodwill, depreciation and minorities.
5. Net Tangible Assets includes 75% of Lep International (NZ) Ltd and 75% of Lep International Pty Ltd.
6. Net debt is long term plus short term debt less cash balances.
7. Equity Ratio is Net Tangible Assets as a percentage of Total Assets.
8. Return on NTA is NPAT as a percentage of Net Tangible Assets.
9. Net Interest Cover is Surplus before Abnormals,Interest and Tax divided by Net Interest Cost.
10. Per Share calculations are based on the current issued capital of 72.298 million Shares.
11. Adjusted Earnings per Share figures are based on NPAT with abnormal items added back.

mainfreight proxy form

I/We ____

(full names in block letters)

Of ____

____

(full names in block letters)

being a member/members of Mainfreight Limited Hereby appoint*

Full Name of Proxy ____

Address ____

or Failing him/her ____

of ____

as my proxy for me/us on my/our behalf at the Annual Meeting of Mainfreight Limited to be held on Thursday 30 July at 2.00pm, and at any adjournment thereof.

Unless otherwise instructed below, the Proxy may vote as he or she thinks fit or abstain from voting. Should the shareholder(s) wish to direct the Proxy how to vote, please indicate with a tick in the appropriate boxes below.

resolutions

Ordinary Business	For	Against
1. To receive the Financial Statements and Reports of Directors and Auditors.	☐	☐
2. a) To re-elect the Hon. R. W. Prebble as a Director.	☐	☐
b) To re-elect Mr C. J. Fernyhough as a Director.	☐	☐
3. To authorise the Directors to fix the remuneration of the Auditors.	☐	☐
4. To authorise the company to provide an unlimited guarantee and indemnity in respect of the obiligations of Lep International Pty Ltd (a Mainfreight subsidiary) to the Westpac Banking Corporation.	☐	☐

Signed this ____________ day of ____________ 1998

Usual Signatures(s) ____________________ Number of Shares held ____________________

note

All Shareholders are entitled to attend this meeting and are entitled to vote.

A member of Mainfreight Limited entitled to attend and vote is entitled to a proxy to attend and vote on his/her behalf. A proxy need not be a member of Mainfreight Limited. To be valid, instruments appointing a proxy must be deposited at the registered office of Mainfreight Limited at 12-14 Southdown Lane, Penrose, Auckland, not less than 48 hours before the holding of the Annual Meeting.

Joint holders should all sign this form. Companies should execute this form under common seal or by an office or attorney duly authorised in accordance with their Constitution/Articles of Association. If this form is executed under Power of Attorney a Certificate of Non-revocation of Power of Attorney together with a copy of the Power of Attorney, should be forwarded with this form if they have not already been produced to Mainfreight Limited.

change of address advice

Previous Address ____

____

Present Address ____

____

* If you wish you may appoint as your proxy "The Chairman of the Meeting".

tape here

No postage stamp required if posted in New Zealand

BUSINESS REPLY POST
Authority No. 2888 Auckland NZ
Postage and fee will be paid on delivery to:

The Registrar
Mainfreight Ltd
C/- Corporate Registry Services Limited
Private Bag 92119
Auckland 1030
New Zealand

directory

board of directors

Donald D Rowlands, CBE, Chairman
Bruce G Plested, ACA, Managing Director
Neil L Graham, QBE
Carl G O Howard-Smith, LLB
C John Fernyhough, LLM (Hons) Jr. Dur.
The Hon. Richard W Prebble, BA, LLB (Hons), CBE

administration office

473 Great South Road
Penrose
PO Box 14-038, Panmure
Auckland
Tel (09) 526 6370

registered office

12-14 Southdown Lane
Penrose
P.O. Box 14-038, Panmure
Auckland
Tel (09) 526 0950
http//:www.mainfreight.co.nz

overseas offices

Lep International Pty Ltd
154 Melrose Drive
Tullamarine
Victoria 3043
Private Bag 8P0
Tel (613) 9339 0888
(Also in Brisbane, Sydney and Adelaide)

Mainfreight Distribution Pty Ltd
24 William Angliss Drive
Laverton North
Victoria 3026
Tel (613) 9931 1311
(Also in Brisbane, Sydney and Adelaide)

auditors

Arthur Andersen
National Bank Centre
209 Queen Street
PO Box 199
Auckland

bankers

Westpac Banking Corporation
Westpac Tower
120 Albert Street
PO Box 934
Auckland

barristers to the company

Howard-Smith & Co
45 Lake Road, Takapuna
Private Bag 33-339
Auckland

share registry

Corporate Registry Services Limited
Level 3, 277 Broadway Newmarket
Private Bag 92-119
Auckland

solicitors to the company

Bell Gully Buddle Weir
34 Shortland Street
PO Box 4199
Auckland

annual report by

Magnum Limited
2 Enfield Street, Mt Eden
Auckland

we don't just let anyone
deliver your freight.