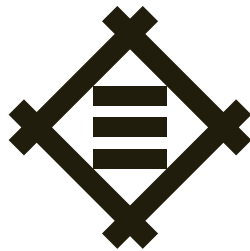




1998 *annual report*

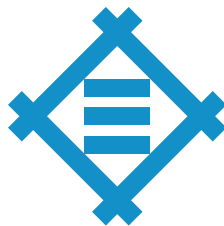


MITSUMI & CO.
(AUSTRALIA) LTD. ACN 004 349 795

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1998 *annual report*



MITSUI & CO.
(AUSTRALIA) LTD. ACN 004 349 795

**ANNUAL REPORT FOR THE YEAR
ENDED 31 DECEMBER 1998**

MESSAGE FROM THE CHAIRMAN AND MANAGING DIRECTOR

Considering the value of world trade in goods and services declined 2% in 1998, I am pleased to report that our sales of \$7.5 billion, on a consolidated basis, increased by 4% in that same period, despite the continued trade contraction in Asia. On the other hand, our operating profit after tax of \$12.3 million was down by 10% reflecting an increasingly competitive trading environment.

We consider the Japanese economy will finally bottom out in 1999 and move toward recovery based on the Government's major fiscal stimulus and a revision of the tax system. However, for Japan to show marked improvement in economic conditions, further time will be needed because of structural factors.

Japan has been Australia's largest export market since 1967. Despite the recession in Japan in recent years, Australia's exports to that country in the year ending December 1998 were up 13% to \$17.4 billion or 20% of total merchandise exports. Price cuts for coal and iron ore exports to Japan in 1999, reflecting a fall in global demand for steel, suggest that the value of Australia's exports could slow this year.

Asian markets are expected to experience growth in the medium term, although economic recovery is expected to require several years.

The Australian economic growth of 4.7% in 1998 was one of the highest in the world based on strong domestic consumer demand reflecting low interest rates, low inflation, positive real wages, low unemployment and a healthy business sentiment. Other factors include the Federal Government's budget surplus and continuing reforms, all of which help to position Australia to benefit from globalisation.

Mitsui Australia has identified Year 2000 readiness as a corporate priority and invested a significant amount of time and resources into this important management project.

We have a positive view of Australia as a stable democracy embracing globalisation and home to world class minerals and energy. Accordingly, we plan to expand our investments in those and other areas in coming years, and will continue to work closely with our national and international customers, aiming to stay one or two steps ahead in meeting their needs.



Fuyuki Kitahara
Chairman and Managing Director

MITSUI & CO. (AUSTRALIA) LTD.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 1998

DIRECTORS' REPORT

The directors of Mitsui & Co. (Australia) Ltd., submit herewith the balance sheet as at 31 December 1998 and the profit and loss account for the financial year then ended. In order to comply with the provisions of the Corporations Law, the directors' report as follows:

The names and particulars of the directors of the company during or since the end of the financial year are:

- Mr F Kitahara Director since 8 October 1996. Joined Mitsui Group in 1965. Appointed Managing Director, Mitsui & Co. (Australia) Ltd. on 2 June 1997. Previously Deputy Managing Director, Mitsui & Co. (Australia) Ltd.. Graduated from Gakushuin University (Politics and Economics). During the financial year he attended 17 of the 17 directors' meetings held.
- Mr W Tashiro Director since 1 March 1999. Joined Mitsui Group in 1969. Currently Deputy General Manager, Mitsui & Co. (Australia) Ltd. and General Manager, Melbourne Office, Mitsui & Co. (Australia) Ltd.. Previously, General Manager, Petroleum Marketing Division, Energy Group, Mitsui & Co., Ltd., Tokyo Office. Graduated from Waseda University, Japan majoring in Law. During the financial year he attended none of the directors' meetings held.
- Mr T Koide Director from 2 February 1995 until his resignation from the Board on 1 March 1999. Joined Mitsui Group in 1966. Most recently Deputy Managing Director of Melbourne office, Mitsui & Co. (Australia) Ltd.. Previously Deputy General Manager of Foods Group, Mitsui & Co., Ltd., Tokyo Office. Graduated from Nagoya University (Economics). During the financial year he attended none of the directors' meetings held.
- Mr T Hatamoto Director since 17 September 1998. Joined Mitsui Group in 1970. Currently Director with primary responsibility for accounting, treasury, and information systems, Mitsui & Co. (Australia) Ltd.. Previously, General Manager of Plant & Project Accounting Department, Machinery and Information Industries Accounting Division, Mitsui & Co., Ltd., Tokyo Office. Graduated from Kobe University, Japan majoring in Law. During the financial year he attended 4 of the 17 directors' meetings held.
- Mr Y Miyoshi Director from 25 March 1996 until his resignation from the Board on 17 September 1998. Joined Mitsui Group in 1969. Most recently General Manager, Finance, Accounting & Risk Management Division, Mitsui & Co. (Australia) Ltd.. Previously General Manager of Development Accounting Department, Mitsui & Co., Ltd., Tokyo Office. Graduated from Tokyo University (Economics and Business Administration). During the financial year he attended 13 of the 17 directors' meetings held.

DIRECTORS' REPORT (CONTINUED)

- Mr Y Hashimoto Director since 1 September 1998. Joined Mitsui Group in 1971. Currently General Manager of Perth Office, Mitsui & Co. (Australia) Ltd.. Previously Deputy General Manager of Mitsui & Co., Ltd, New Delhi Branch. Graduated from Osaka University majoring in Economics. During the financial year he attended none of directors' meetings held.
- Mr M Sukagawa Director from 1 January 1998 until his resignation from the Board on 1 September 1998. Joined Mitsui Group in 1973. General Manager of Perth Office until August 1998. Previously First and Second Oceania Secretary and General Manager of Iron and Steel Raw Materials Group, Iron Ore Division, Mitsui & Co., Ltd., Tokyo Office. Graduated from Sophia University (English Literature). During the financial year he attended none of the directors' meetings held.
- Mr K Ariki Director since 1 January 1998. Joined Mitsui Group in 1973. Currently General Manager of Brisbane Office, Mitsui & Co. (Australia) Ltd.. Previously Assistant General Manager, Thermal Coal Group, Coal Division, Mitsui & Co., Ltd., Tokyo Office. Graduated from Waseda University (Commercial Sciences). During the year he attended none of the directors' meetings held.

PRINCIPAL ACTIVITIES OF THE ECONOMIC ENTITY

The principal activities of the economic entity constituted by the company and the entities it controlled from time to time during the year were importing, exporting, and the provision of finance to related bodies corporate. There was no significant change in the nature of these activities during the financial year.

RESULTS

The net amount of consolidated profit of the economic entity for the financial year after income tax expense and outside equity interest was \$12,361,000 (1997: \$13,717,000).

DIVIDENDS

The amounts paid or declared by way of dividend by the company since the start of the year were:

A final dividend of \$3,500,000 in respect of the year ended 31 December 1997 was paid on 31 March 1998.

An interim dividend of \$3,500,000 in respect of the year ended 31 December 1998 was paid on 30 October 1998.

In respect of the year ended 31 December 1998 the directors recommend the payment of a final dividend of \$3,500,000.

DIRECTORS' REPORT (CONTINUED)

REVIEW OF OPERATIONS

A summary of consolidated results is set out below:

	1998	1997
	\$'000	\$'000
Sales revenue	<u>7,568,182</u>	<u>7,255,164</u>
Operating profit before abnormal items and income tax	10,904	15,099
Abnormal items before income tax	<u>—</u>	<u>(3,005)</u>
Operating profit before income tax	10,904	12,094
Income tax benefit/(expense) attributable to operating profit	<u>2,828</u>	<u>(3,985)</u>
Operating profit after income tax	13,732	8,109
Outside equity interests in operating profit after income tax	<u>(1,371)</u>	<u>5,608</u>
Operating profit after income tax attributable to members of the chief entity	<u><u>12,361</u></u>	<u><u>13,717</u></u>

Sales revenue for the year increased by 4% when compared to the previous financial year. Operating profit after income tax attributable to members of the chief entity decreased by 10% reflecting a difficult trading environment.

CHANGES IN STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the economic entity other than that referred to in the financial statements or notes thereto.

SUBSEQUENT EVENTS

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in financial years after the financial year.

FUTURE DEVELOPMENTS

The directors believe, on reasonable grounds, that to include in this report particular information regarding likely developments in the operations of the economic entity and the expected results of those operations in financial years after the financial year would be likely to result in unreasonable prejudice to the company. Accordingly, this information has not been included in this report.

DIRECTORS' REPORT (CONTINUED)

ENVIRONMENTAL REGULATIONS

The company is not subject to any particular or significant environmental regulations under a law of the Commonwealth or of a State or Territory.

INDEMNIFICATION OF OFFICERS AND AUDITORS

During or since the financial year the company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

ROUNDING OFF OF AMOUNTS

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in this Directors' Report and in the financial statements have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to section 298(2) of the Corporations Law.

On behalf of the Directors



T Hatamoto
Director

Sydney, 30 April 1999



INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF MITSUI & CO. (AUSTRALIA) LTD.

Scope

We have audited the financial report of Mitsui & Co. (Australia) Ltd. for the financial year ended 31 December 1998 as set out on pages 9 to 38. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The names of the entities controlled during all or part of, or at the end of, the financial year, but of which we have not acted as auditors are:

Mitsui & Co. Financial Services (Australia) Ltd.
Mitsui Computer Limited

We have, however, received sufficient information and explanations concerning those controlled entities to enable us to form an opinion on the consolidated financial statements.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

In our opinion, the financial report of Mitsui & Co. (Australia) Ltd. is in accordance with:

- a) the Corporations Law, including
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 1998 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- b) other mandatory professional reporting requirements.

DELOITTE TOUCHE TOHMATSU

G. Coultas
Partner
Chartered Accountants

Sydney, 30 April 1999

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 31 DECEMBER 1998

The directors declare that:

- (a) the attached financial statements and notes thereto comply with accounting standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company and the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Law; and
- (d) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Law.

On behalf of the Directors



T Hatamoto
Director

Sydney, 30 April 1999

BALANCE SHEET

AS AT 31 DECEMBER 1998

	Note	Consolidated		Company	
		1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
CURRENT ASSETS					
Cash		45,457	6,146	2,727	5,245
Receivables	2	314,324	576,754	273,231	469,738
Inventories	3	3,574	7,652	3,574	3,902
Other	4	<u>88,063</u>	<u>52,269</u>	<u>87,195</u>	<u>49,618</u>
TOTAL CURRENT ASSETS		<u>451,418</u>	<u>642,821</u>	<u>366,727</u>	<u>528,503</u>
NON-CURRENT ASSETS					
Receivables	5	97,958	128,413	130,080	81,122
Investments	6	153,825	139,841	154,488	140,678
Property, plant and equipment	7	11,948	13,985	11,773	13,780
Other	8	<u>3,605</u>	<u>35,914</u>	<u>3,519</u>	<u>35,909</u>
TOTAL NON-CURRENT ASSETS		<u>267,336</u>	<u>318,153</u>	<u>299,860</u>	<u>271,489</u>
TOTAL ASSETS		<u>718,754</u>	<u>960,974</u>	<u>666,587</u>	<u>799,992</u>
CURRENT LIABILITIES					
Accounts payable	9	153,902	271,786	153,652	260,283
Borrowings	10	245,679	363,866	161,790	187,493
Provisions	11	4,856	13,159	4,725	14,710
Other	12	<u>17,738</u>	<u>14,592</u>	<u>17,738</u>	<u>14,592</u>
TOTAL CURRENT LIABILITIES		<u>422,175</u>	<u>663,403</u>	<u>337,905</u>	<u>477,078</u>
NON-CURRENT LIABILITIES					
Accounts payable	13	–	23,869	–	23,869
Borrowings	14	127,406	86,323	160,937	108,999
Provisions	15	2,158	583	2,145	565
Other	16	<u>–</u>	<u>27,759</u>	<u>–</u>	<u>27,759</u>
TOTAL NON-CURRENT LIABILITIES		<u>129,564</u>	<u>138,534</u>	<u>163,082</u>	<u>161,192</u>
TOTAL LIABILITIES		<u>551,739</u>	<u>801,937</u>	<u>500,987</u>	<u>638,270</u>
NET ASSETS		<u>167,015</u>	<u>159,037</u>	<u>165,600</u>	<u>161,722</u>
EQUITY					
Share capital	17	20,000	20,000	20,000	20,000
Reserves	18	84,399	86,349	84,399	86,349
Retained profits		<u>62,616</u>	<u>57,255</u>	<u>61,201</u>	<u>55,373</u>
Equity attributable to members of the chief entity		167,015	163,604	165,600	161,722
Outside equity interests in controlled entity	32	<u>–</u>	<u>(4,567)</u>	<u>–</u>	<u>–</u>
TOTAL SHAREHOLDERS' EQUITY		<u>167,015</u>	<u>159,037</u>	<u>165,600</u>	<u>161,722</u>

Notes to and forming part of the financial statements are included on pages 13 to 38

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	Consolidated		Company	
		1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Sales revenue	20 & 24	<u>7,568,182</u>	<u>7,255,164</u>	<u>7,527,689</u>	<u>7,186,002</u>
Operating profit before abnormal items and income tax	20	10,904	15,099	10,368	16,286
Abnormal items before income tax	21	<u>—</u>	<u>(3,005)</u>	<u>1,565</u>	<u>390</u>
Operating profit before income tax		10,904	12,094	11,933	16,676
Income tax benefit/(expense) attributable to operating profit	22	<u>2,828</u>	<u>(3,985)</u>	<u>895</u>	<u>(3,444)</u>
OPERATING PROFIT AFTER INCOME TAX		13,732	8,109	12,828	13,232
Outside equity interests in operating profit after income tax		<u>(1,371)</u>	<u>5,608</u>	<u>—</u>	<u>—</u>
OPERATING PROFIT AFTER INCOME TAX ATTRIBUTABLE TO MEMBERS OF THE CHIEF ENTITY		12,361	13,717	12,828	13,232
Retained profits at the beginning of the financial year		<u>57,255</u>	<u>53,538</u>	<u>55,373</u>	<u>52,141</u>
TOTAL AVAILABLE FOR APPROPRIATION		69,616	67,255	68,201	65,373
Dividends provided for or paid	23	<u>(7,000)</u>	<u>(10,000)</u>	<u>(7,000)</u>	<u>(10,000)</u>
RETAINED PROFITS AT THE END OF THE FINANCIAL YEAR		<u>62,616</u>	<u>57,255</u>	<u>61,201</u>	<u>55,373</u>

Notes to and forming part of the financial statements are included on pages 13 to 38

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Note	Consolidated		Company	
		1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Cash flows from operating activities					
Receipts from customers		7,668,630	7,239,835	7,559,708	7,154,663
Payments to suppliers and employees		(7,763,060)	(7,353,326)	(7,696,885)	(7,302,422)
Dividends received		9,853	9,257	9,853	9,257
Interest received		56,178	88,556	46,871	78,328
Interest paid		(53,259)	(61,587)	(44,276)	(50,905)
Income tax paid		(1,530)	(1,558)	(1,480)	(1,348)
Net cash used in operating activities	30(a)	<u>(83,188)</u>	<u>(78,823)</u>	<u>(126,209)</u>	<u>(112,427)</u>
Cash flows from investing activities					
Decrease/(increase) in short term deposits		33,388	(4,608)	33,388	(4,608)
Decrease in bills accepted or endorsed by banks		108,368	124,834	108,368	124,834
Decrease in current loans receivable		70,437	586	49,109	908
(Increase)/decrease in non-current loans receivable		(9,959)	(2,140)	(65,828)	(2,140)
Payment for investment in non-quoted corporations		(23,945)	(2,485)	(24,045)	(3,035)
Proceeds from sale of quoted investments		275	1,239	1,440	1,239
Distribution to minority shareholders on liquidation of controlled entity		(875)	–	–	–
Payment for property, plant and equipment		(1,854)	(8,351)	(1,387)	(7,395)
Proceeds from sale of property, plant and equipment		2,536	978	2,413	964
Proceeds from leveraged lease investment		4,782	2,105	4,782	2,105
Net cash provided by investing activities		<u>183,153</u>	<u>112,158</u>	<u>108,240</u>	<u>112,872</u>
Cash flows from financing activities					
Proceeds from short term borrowings		13,302	6,527	35,415	5,967
Repayment of short term borrowings		(79,133)	(20,374)	(80,192)	(18,724)
Proceeds from long term borrowings		12,669	–	67,720	22,906
Repayment of long term borrowings		–	(10,224)	–	(2,030)
Dividends paid		(7,000)	(13,000)	(7,000)	(13,000)
Net cash provided by/(used in) financing activities		<u>(60,162)</u>	<u>(37,071)</u>	<u>15,943</u>	<u>(4,881)</u>
Net increase/(decrease) in cash held		39,803	(3,736)	(2,026)	(4,436)
Add: Opening cash brought forward		(124)	3,612	(1,025)	3,411
Cash at the end of the financial year	30(b)	<u>39,679</u>	<u>(124)</u>	<u>(3,051)</u>	<u>(1,025)</u>

Notes to and forming part of the financial statements are included on pages 13 to 38

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

I. SUMMARY OF ACCOUNTING POLICIES

Financial Reporting Framework

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Law, applicable Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

Significant Accounting Policies

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

In addition to the accounting policies prescribed by applicable Accounting Standards and Urgent Issues Group Consensus Views, the following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of Consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the economic entity, being the company (the chief entity) and its controlled entities as defined in AASB 1024 "Consolidated Accounts". A list of controlled entities appears in Note 33. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the economic entity are eliminated in full.

(b) Investments

The economic entity's interests in entities which are not controlled are brought to account at cost or directors' valuation. Dividends are taken to income on a receivable basis.

(c) Foreign Currency

All foreign currency transactions during the year have been brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the profit and loss account of the financial period in which they arise except that exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods or services are deferred and included in the measurement of the purchase or sale.

(d) Depreciation

Buildings, plant, motor vehicles and furniture are depreciated over their estimated useful economic lives using either the reducing balance method or prime cost method. The following estimated useful lives are used in the calculation of depreciation:

- buildings 40 years
- plant, motor vehicles and furniture 3-30 years

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

I. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(e) *Inventories*

Merchandise on hand and in transit is valued at the lower of cost and net realisable value. Costs are assigned to inventory by the method most appropriate to each particular class of inventory with the majority being valued on a specific identification basis.

(f) *Income Tax*

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

(g) *Leveraged Lease Transactions*

Income from leveraged leases has been brought to account using a method which yields a constant after tax rate of return on the outstanding lease investment.

(h) *Recoverable Amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(i) *Leased Assets*

Leased assets classified as finance leases are capitalised as fixed assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Capitalised leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are charged as an expense in the period in which they are incurred.

In the event that premises leased by the economic entity pursuant to a non-cancellable operating lease are identified as surplus to the needs of the economic entity, a liability and expense are recognised equal to the present value of the total expected outlay relating to the surplus space as specified under the lease agreement.

When calculating the present value of the total expected outlay relating to the surplus leased space, the interest rate implicit in the lease or an estimate thereof is used.

(j) *Interests in Joint Ventures*

Interests in joint ventures have been reported in the accounts by including the economic entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to joint ventures and the share of any expenses incurred in relation to joint ventures in their respective classification categories.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

I. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

(k) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, long service leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of long service leave entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the economic entity in respect of services provided by employees up to the reporting date.

(l) Equity Accounting

Equity Accounting disclosures have not been made in these accounts on the basis that the economic entity does not have material interests in associated companies.

(m) Receivables

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts. Bills of exchange are recorded at amortised cost, with revenue recognised on a effective yield basis.

(n) Accounts payable

Trade creditors and other creditors and accruals are recognised when the economic entity becomes obliged to make future payments from the purchase of goods and services. Included within trade creditors are gold borrowings.

(o) Borrowings

Short and long term loans are recorded at amounts equal to the net proceeds received. Interest expense is recognised on an accrual basis.

(p) Derivative financial instruments

Derivative transactions including swaps and options on interest rates, exchange rates and commodities are entered into principally for hedging purposes. These transactions are accounted for under the principles of hedge accounting and income is recognised on the same basis as that of the underlying item being hedged.

(q) Interest Rate Swaps and Forward Rate Agreements

Interest payments and receipts under interest rate swap contracts and forward rate agreements are recognised on an accrual basis in the profit and loss account as an adjustment to interest expense during the period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
2. CURRENT RECEIVABLES				
Trade debtors	127,729	161,438	127,750	152,357
Provision for doubtful debts	<u>(1,500)</u>	<u>(520)</u>	<u>(1,500)</u>	<u>–</u>
	<u>126,229</u>	<u>160,918</u>	<u>126,250</u>	<u>152,357</u>
Short term deposits	24,158	137,608	24,158	57,546
Bills accepted or endorsed by banks	16,100	125,765	16,100	125,765
Loans to:				
– controlled entities	–	–	66,700	82,012
– related bodies corporate – wholly owned group	102,272	91,828	24,977	28,390
– other related parties	35,374	42,716	4,915	5,831
– other parties	10,152	20,871	10,092	20,789
– less provision for doubtful debts	–	(3,000)	–	(3,000)
– directors (note 31c)	<u>39</u>	<u>48</u>	<u>39</u>	<u>48</u>
	<u>188,095</u>	<u>415,836</u>	<u>146,981</u>	<u>317,381</u>
	<u><u>314,324</u></u>	<u><u>576,754</u></u>	<u><u>273,231</u></u>	<u><u>469,738</u></u>
3. CURRENT INVENTORIES				
Finished goods on hand and in transit				
– at net realisable value	–	3,750	–	–
– at cost	<u>3,574</u>	<u>3,902</u>	<u>3,574</u>	<u>3,902</u>
	<u><u>3,574</u></u>	<u><u>7,652</u></u>	<u><u>3,574</u></u>	<u><u>3,902</u></u>
4. OTHER CURRENT ASSETS				
Other debtors and prepayments	72,712	39,777	71,844	37,126
Advances paid on contracts	<u>15,351</u>	<u>12,492</u>	<u>15,351</u>	<u>12,492</u>
	<u><u>88,063</u></u>	<u><u>52,269</u></u>	<u><u>87,195</u></u>	<u><u>49,618</u></u>
5. NON-CURRENT RECEIVABLES				
Long term loans				
– other parties	41,201	42,927	41,201	42,927
– controlled entities	–	–	51,600	–
– related bodies corporate – wholly owned group	55,449	85,185	35,971	37,894
– directors (note 31c)	<u>58</u>	<u>43</u>	<u>58</u>	<u>43</u>
	<u>96,708</u>	<u>128,155</u>	<u>128,830</u>	<u>80,864</u>
Trade debtors	<u>1,250</u>	<u>258</u>	<u>1,250</u>	<u>258</u>
	<u><u>97,958</u></u>	<u><u>128,413</u></u>	<u><u>130,080</u></u>	<u><u>81,122</u></u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
6. NON-CURRENT INVESTMENTS				
Non quoted investments				
Shares in controlled entities				
– at cost	–	–	1,200	3,825
Less: provision for diminution in value	–	–	–	(2,725)
	–	–	1,200	1,100
Shares in related bodies corporate				
– at directors valuation – 1997 (i)	114,838	114,838	114,838	114,838
Less: provision for diminution in value	(1,950)	–	(1,950)	–
	112,888	114,838	112,888	114,838
– at cost	17,561	–	17,561	–
	130,449	114,838	130,449	114,838
Shares in other corporations – at cost				
	23,348	23,185	23,348	23,185
Less: provision for diminution in value	(2,200)	(2,200)	(2,200)	(2,200)
	21,148	20,985	21,148	20,985
Quoted investments				
Shares				
– at cost (ii)	2,000	2,000	2,000	2,000
Less provision for diminution in value	(588)	(163)	(588)	(163)
	1,412	1,837	1,412	1,837
Investment in regenerative forests	537	263	–	–
Investment in leveraged leases (note 19)	279	1,918	279	1,918
	153,825	139,841	154,488	140,678

(i) Shares in related bodies corporate were revalued by directors in 1997. The valuation performed on the basis of current market values. The valuation was not made in accordance with a regular policy of revaluation.

(ii) Quoted market value \$1,423,000 (1997: \$2,202,000)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
7. PROPERTY, PLANT AND EQUIPMENT				
Freehold land and buildings				
– at cost (i)	10,693	10,730	10,011	10,245
Accumulated depreciation on buildings	<u>(670)</u>	<u>(502)</u>	<u>(670)</u>	<u>(502)</u>
	<u>10,023</u>	<u>10,228</u>	<u>9,341</u>	<u>9,743</u>
Plant, motor vehicles and furniture				
– at cost	5,792	7,787	6,260	8,045
Accumulated depreciation	<u>(3,867)</u>	<u>(4,030)</u>	<u>(3,828)</u>	<u>(4,008)</u>
	<u>1,925</u>	<u>3,757</u>	<u>2,432</u>	<u>4,037</u>
	<u>11,948</u>	<u>13,985</u>	<u>11,773</u>	<u>13,780</u>
(i) The aggregate current market values of land and buildings	<u>17,133</u>	<u>18,134</u>	<u>17,133</u>	<u>18,134</u>

Current market values of land and buildings were assessed by directors at 31 December 1997. The land and buildings are staff houses and the directors' assessment of current market value at 31 December 1997 is based on independent kerbside opinions of value at January 1998 by Raine & Horne, LJ Hooker, Ray White, and Hocking Stuart Pty Ltd.

8. OTHER NON-CURRENT ASSETS

Future income tax benefits – timing differences	2,630	3,552	2,544	3,547
Advances paid on contracts	975	8,314	975	8,314
Other debtors	<u>–</u>	<u>24,048</u>	<u>–</u>	<u>24,048</u>
	<u>3,605</u>	<u>35,914</u>	<u>3,519</u>	<u>35,909</u>

9. CURRENT ACCOUNTS PAYABLE

Trade creditors – unsecured	68,554	133,763	68,703	126,710
Trade creditors – secured (ii)	16,279	85,858	16,279	85,858
Other creditors and accrued expenses	<u>69,069</u>	<u>52,165</u>	<u>68,670</u>	<u>47,715</u>
	<u>153,902</u>	<u>271,786</u>	<u>153,652</u>	<u>260,283</u>

(ii) Secured by a charge over the parent company's bank accepted bills.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
10. CURRENT BORROWINGS				
Unsecured:				
Bank overdraft	5,778	6,270	5,778	6,270
Short term borrowings				
– controlled entities	–	–	52,824	–
– ultimate parent entity	9,581	8,892	9,581	8,892
– related bodies corporate – wholly owned group	1,946	1,752	–	6,954
– other related parties	57,823	–	–	–
– other parties	<u>170,551</u>	<u>346,486</u>	<u>93,607</u>	<u>165,377</u>
	245,679	363,400	161,790	187,493
Secured:				
Finance lease liability				
(secured over property subject to lease)	<u>–</u>	<u>466</u>	<u>–</u>	<u>–</u>
	<u>245,679</u>	<u>363,866</u>	<u>161,790</u>	<u>187,493</u>
11. CURRENT PROVISIONS				
Dividends	3,500	3,500	3,500	3,500
Taxation	874	4,625	743	4,523
Employee entitlements	482	2,471	482	587
Guarantee of controlled entity	–	–	–	6,100
Termination payments and contract exit costs	–	1,330	–	–
Surplus rental space	<u>–</u>	<u>1,233</u>	<u>–</u>	<u>–</u>
	<u>4,856</u>	<u>13,159</u>	<u>4,725</u>	<u>14,710</u>
12. OTHER CURRENT LIABILITIES				
Advances received on contracts	<u>17,738</u>	<u>14,592</u>	<u>17,738</u>	<u>14,592</u>
13. NON-CURRENT ACCOUNTS PAYABLE				
Trade creditors – unsecured	<u>–</u>	<u>23,869</u>	<u>–</u>	<u>23,869</u>
14. NON-CURRENT BORROWINGS				
Unsecured:				
Long term borrowings				
– ultimate parent entity	91,435	40,005	91,435	40,005
– controlled entities	–	–	33,531	31,100
– other parties	<u>35,971</u>	<u>46,318</u>	<u>35,971</u>	<u>37,894</u>
	<u>127,406</u>	<u>86,323</u>	<u>160,937</u>	<u>108,999</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
15. NON-CURRENT PROVISIONS				
Employee entitlements	645	565	645	565
Deferred income tax	<u>1,513</u>	<u>18</u>	<u>1,500</u>	<u>–</u>
	<u>2,158</u>	<u>583</u>	<u>2,145</u>	<u>565</u>
16. OTHER NON-CURRENT LIABILITIES				
Advances received on contracts	<u>–</u>	<u>27,759</u>	<u>–</u>	<u>27,759</u>
17. SHARE CAPITAL				
Issued capital				
10,000,000 ordinary shares fully paid	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>
18. RESERVES				
Asset revaluation reserve	<u>84,399</u>	<u>86,349</u>	<u>84,399</u>	<u>86,349</u>
Movement in asset revaluation				
– balance at beginning of financial year	86,349	–	86,349	–
– revaluation of non-current assets	<u>(1,950)</u>	<u>86,349</u>	<u>(1,950)</u>	<u>86,349</u>
– balance at end of financial year	<u>84,399</u>	<u>86,349</u>	<u>84,399</u>	<u>86,349</u>
19. INVESTMENTS IN LEVERAGED LEASES				
Leveraged lease receivables	2,744	7,526	2,744	7,526
Less: Unearned income	<u>(47)</u>	<u>(102)</u>	<u>(47)</u>	<u>(102)</u>
	<u>2,697</u>	<u>7,424</u>	<u>2,697</u>	<u>7,424</u>
Less: Provision for deferred taxation				
– balance brought forward	(5,506)	(7,746)	(5,506)	(7,746)
– movement for the period	<u>3,088</u>	<u>2,240</u>	<u>3,088</u>	<u>2,240</u>
	<u>(2,418)</u>	<u>(5,506)</u>	<u>(2,418)</u>	<u>(5,506)</u>
	<u>279</u>	<u>1,918</u>	<u>279</u>	<u>1,918</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
20. OPERATING PROFIT				
(a) Operating profit before income tax includes the following items of revenue and expense:				
REVENUE				
Sales revenue	7,568,182	7,255,164	7,527,689	7,186,002
Dividends received:				
– related bodies corporate – wholly owned group	6,852	5,986	6,852	5,986
– other related parties	210	630	210	630
– other parties	2,791	2,641	2,791	2,641
Proceeds on the disposal of:				
– property, plant and equipment	2,534	978	2,411	964
– investments	1,210	1,239	1,210	1,239
Export market development grant	60	183	60	183
Transfers from provisions:				
– annual leave	105	–	105	–
– long service leave	–	21	–	21
– doubtful debts	261	1,621	–	1,621
– employee entitlements	–	41	–	–
– inventories	1,049	–	–	–
– contract exit costs	2,052	–	–	–
– other	541	–	–	–
Foreign exchange gain – speculative dealing	–	147	–	147
– other	5,931	9,287	3,911	9,285
Leveraged lease income	36	69	36	69
Interest received or due and receivable:				
– ultimate parent entity	1,100	2,980	1,100	2,980
– controlled entity	–	–	3,291	3,459
– related bodies corporate – wholly owned group	13,964	25,621	7,259	13,884
– other related parties	2,547	2,076	364	–
– other parties	32,832	52,041	30,557	51,179
Management fees				
– ultimate parent entity	604	1,000	604	1,000
– controlled entities	–	–	272	307
– related bodies corporate – wholly owned group	416	418	381	353
– other related parties	1,104	1,281	1,054	1,244
– other parties	94	69	91	67
Other income	156	22	166	22
	<u>76,449</u>	<u>108,351</u>	<u>62,725</u>	<u>97,281</u>
Abnormal revenue:				
Revaluation of investment – related bodies corporate	–	8,150	–	8,150
TOTAL OPERATING REVENUE	<u>7,644,631</u>	<u>7,371,665</u>	<u>7,590,414</u>	<u>7,291,433</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000
20. OPERATING PROFIT (CONTINUED)				
EXPENSES				
Interest paid or due and payable:				
– ultimate parent entity	18,669	15,744	18,669	15,744
– controlled entity	–	–	3,796	353
– related bodies corporate – wholly owned group	11,907	877	11,838	730
– other related parties	756	–	88	–
– other parties	18,879	62,486	8,050	51,313
Operating lease rental expense	2,621	3,053	2,150	2,066
Transfers to/(from) provisions				
– employee entitlements	80	40	80	28
– doubtful debts – trade receivable	1,197	140	1,500	–
– stock obsolescence	–	432	–	–
Depreciation of fixed assets	1,228	1,865	1,198	1,193
Bad debts written off	11	257	11	–
Amortisation of leased assets	–	168	–	–
Diminution in value of investments				
– quoted investments	425	–	425	–
Foreign exchange loss	5,718	9,526	3,784	9,282
Auditors remuneration paid or provided for:				
Holding company auditors				
– auditing the accounts	161	139	147	133
– other services	467	196	465	196
Other auditors				
– auditing the accounts	56	52	–	–
– other services	3	18	–	–

(b) Sales of non-current assets have given rise to the following profits and losses:

Profits:	Property, plant and equipment	368	244	368	230
Losses:	Property, plant and equipment	227	322	151	322
	Non-quoted investment	920	–	290	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
Surplus on liquidation of controlled entity	-	-	1,565	-
Applicable income tax	-	-	-	-
	-	-	1,565	-
Guarantee of controlled entity	-	-	-	(6,100)
Applicable income tax	-	-	-	-
	-	-	-	(6,100)
Costs associated with the winding up of the operations of a controlled entity				
- write down of inventory to net realisable value	-	(4,352)	-	-
- write down of plant and equipment to net realisable value	-	(1,558)	-	-
- termination payments and contract exit costs	-	(4,685)	-	-
	-	(10,595)	-	-
Applicable income tax	-	-	-	-
	-	(10,595)	-	-
Net write back in provision for diminution in value of investments in related bodies corporate	-	8,150	-	8,150
Applicable income tax	-	-	-	-
	-	8,150	-	8,150
Provision for diminution in value of investment in controlled entity	-	-	-	(1,100)
Applicable income tax	-	-	-	-
	-	-	-	(1,100)
Provision for diminution in value of other investments	-	(560)	-	(560)
Applicable income tax	-	-	-	-
	-	(560)	-	(560)
Total abnormal items before income tax	-	(3,005)	1,565	390
Applicable income tax	-	-	-	-
	-	(3,005)	1,565	390

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
22. INCOME TAX				
(a) Income tax expense				
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax (benefit)/expense in the accounts as follows:				
Operating profit	<u>10,904</u>	<u>12,094</u>	<u>11,933</u>	<u>16,676</u>
Income tax expense calculated at 36% of operating profit	3,926	4,354	4,296	6,003
Add/(less):				
Tax effect of permanent differences:				
Rebatable dividends	(3,547)	(3,332)	(3,547)	(3,332)
Non assessable leveraged lease income	(13)	(25)	(13)	(25)
Non deductible entertainment and other items	336	444	358	391
Non deductible provisions (written back)	(381)	(1,228)	–	1,364
Surplus on liquidation of controlled entity	–	–	(564)	–
Other	406	250	180	250
Tax losses transferred from related bodies corporate	(6,991)	(2,758)	(6,886)	(2,658)
Consideration for tax losses transferred	3,495	1,379	3,443	1,329
(Over)/under provision of income tax in prior year	1,839	(36)	1,838	122
Future income tax benefit not previously recognised now brought to account	(1,927)	–	–	–
Future income tax benefit not brought to account	<u>29</u>	<u>4,937</u>	<u>–</u>	<u>–</u>
Income tax (benefit)/expense attributable to operating profit	<u>(2,828)</u>	<u>3,985</u>	<u>(895)</u>	<u>3,444</u>

(b) Future income tax not brought to account

Potential future income tax benefit arising from certain tax losses and timing differences have not been recognised as an asset because recovery is not virtually certain:

Timing differences	–	3,437	–	–
Capital tax losses	71	993	71	197
Revenue tax losses	<u>205</u>	<u>1,488</u>	<u>–</u>	<u>–</u>
	<u>276</u>	<u>5,918</u>	<u>71</u>	<u>197</u>

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

- (i) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised,
- (ii) conditions for deductibility imposed by the law are complied with; and
- (iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000

23. DIVIDENDS PROVIDED FOR OR PAID

Interim dividend paid, fully franked at 36%	3,500	6,500	3,500	6,500
Dividend proposed, fully franked at 36%	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>	<u>3,500</u>
	<u>7,000</u>	<u>10,000</u>	<u>7,000</u>	<u>10,000</u>
Adjusted franking account balance	<u>4,015</u>	<u>1,526</u>	<u>4,015</u>	<u>1,526</u>

24. SALES REVENUE

As a general trading company the company acts as principal or agent in trading transactions. The amount disclosed as sales revenue includes sales revenue with respect to transactions in which the company has acted as either principal or agent. As to transactions in which the company acts as principal (purchase and sale transactions) only title to and payment for the goods passes through the company without physical acquisition and delivery. As to transactions in which the company acts as agent, payments for goods in most instances are made by purchasers directly to suppliers.

25. REMUNERATION OF DIRECTORS

The directors of Mitsui & Co. (Australia) Ltd. during the year were:

F Kitahara
T Koide
Y Miyoshi
T Hatamoto
K Arika
Y Hashimoto
M Sukagawa

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of the company, directly or indirectly, by the company or by any related party

1,700 1,271

The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the economic entity, directly or indirectly, by the entities in which they are directors or by any related party

2,518 1,773

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

Consolidated		Company	
1998	1997	1998	1997
\$'000	\$'000	\$'000	\$'000

25. REMUNERATION OF DIRECTORS (CONTINUED)

The number of directors of the company whose total income falls within the following bands of income.

	No.	No.
\$ 50,000 – \$ 59,999	1	–
\$ 80,000 – \$ 89,999	1	–
\$110,000 – \$119,999	1	–
\$150,000 – \$159,999	–	1
\$210,000 – \$219,999	1	–
\$290,000 – \$299,999	–	–
\$340,000 – \$349,999	1	1
\$380,000 – \$389,999	–	1
\$420,000 – \$429,999	1	–
\$440,000 – \$449,999	–	1
\$450,000 – \$459,999	1	–

26. INTERESTS IN JOINT VENTURES

The economic entity has a 3% participating interest in the Bunbury Treefarm Joint Venture, a 6.67% interest in the Victoria Treefarm Joint Venture and a 10% participating interest in the Green Triangle Treefarm Joint Venture.

The principal activities of the joint ventures are to develop afforestation operations.

The economic entity's share of the net assets of the joint ventures are included in the balance sheet under the following classifications:

Current assets – cash	33	29	–	–
Current assets – other debtors and prepayments	18	19	–	–
Non-current assets – investment in regenerative forests	457	242	–	–
Non-current assets – property, plant & equipment	688	490	–	–
Current liabilities – other creditors and accrued expenses	(18)	(13)	–	–
Share of net assets/(liabilities) employed in joint venture	1,178	767	–	–
Share of joint venture costs included in operating result	(4)	(4)	–	–

The economic entity did not receive any product or service from the joint ventures for the year ended 31 December 1998.

For details of capital expenditure commitments relating to the joint ventures refer to note 27.

Non-cancellable operating lease commitments relating to the joint ventures amounting to \$999,000 (1997: \$765,000) are included in note 27.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
27. EXPENDITURE COMMITMENTS				
Lease Commitments				
Non cancellable operating leases				
– Not later than one year	3,366	5,775	3,256	3,337
– Later than one year but not later than two years	2,046	2,792	2,012	2,746
– Later than two years but not later than five years	5,177	6,095	5,075	6,029
– Later than five years	<u>2,083</u>	<u>2,395</u>	<u>1,252</u>	<u>1,728</u>
	<u>12,672</u>	<u>17,057</u>	<u>11,595</u>	<u>13,840</u>
Capitalised finance leases				
– Not later than one year	<u>–</u>	<u>561</u>	<u>–</u>	<u>–</u>
Minimum lease payments	<u>–</u>	<u>561</u>	<u>–</u>	<u>–</u>
Future finance charges	<u>–</u>	<u>(95)</u>	<u>–</u>	<u>–</u>
Present value at balance date of minimum lease payments (note 10)	<u>–</u>	<u>466</u>	<u>–</u>	<u>–</u>
Commodity Purchase Commitments				
Aggregate purchase commitments contracted for at balance date but not provided for in the accounts				
– Not later than one year	1,011,667	1,022,103	1,011,667	1,022,103
– Later than one year but not later than two years	153,288	152,313	153,288	152,313
– Later than two years but not later than five years	74,389	379,778	74,389	379,778
– Later than five years	<u>8,198</u>	<u>2,250</u>	<u>8,198</u>	<u>2,250</u>
	<u>1,247,542</u>	<u>1,556,444</u>	<u>1,247,542</u>	<u>1,556,444</u>
Capital Expenditure Commitments				
Total capital expenditure contracted for at balance date but not provided for in the accounts related to Bunbury Tree Farm Joint Venture, payable not later than one year				
	<u>130</u>	<u>176</u>	<u>–</u>	<u>–</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000

28. CONTINGENT LIABILITIES

Contingent liabilities at year end are:

(a) Guarantees given in respect of borrowings by controlled entities:	—	—	76,944	199,660
(b) The company has given performance guarantees in respect of various contracts to other corporations.	3,757	3,610	3,757	3,610
(c) A statement of claim was lodged against the company for loss resulting from cancellation of an alleged contract for the purchase of goods. The directors were of the view that no contract existed and successfully defended the resulting action. The amount of the claim was:	—	232	—	232
(d) A claim for damages was lodged against the parent entity as second defendant. The company disclaimed liability and settled the action during the year. The amount of the claim was:	—	500	—	500
(e) Indemnity given in respect of loans and guarantees given by the ultimate parent company:	6,496	4,926	6,496	4,926

29. FINANCING ARRANGEMENTS

The economic entity has the following unrestricted finance facilities available:

Bank overdraft facilities	15,425	16,125	15,325	16,025
Term loan facilities	772,374	927,216	429,516	343,028
Commercial paper	200,000	200,000	—	—
	<u>987,799</u>	<u>1,143,341</u>	<u>444,841</u>	<u>359,053</u>
Total facilities used at year end	<u>157,069</u>	<u>310,962</u>	<u>79,009</u>	<u>111,362</u>

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998 \$'000	1997 \$'000	1998 \$'000	1997 \$'000
30. NOTES TO STATEMENT OF CASH FLOWS				
(a) Reconciliation of net cash (used in) operating activities to operating profit after income tax.				
Operating profit after income tax	13,732	8,109	12,828	13,232
Add/(less):				
Profit on disposal of property, plant & equipment	(368)	(244)	(368)	(230)
Loss on disposal of property, plant & equipment	227	322	151	322
Depreciation and amortisation	1,228	2,031	1,198	1,193
Revaluation of investments	–	(7,590)	–	(6,490)
Write down plant and equipment	–	1,558	–	–
Unrealised exchange gain	(3,911)	–	(3,911)	–
Surplus on liquidation of controlled entity	–	–	(1,565)	–
Loss on disposal of investments	920	4	290	4
Loan receivable forgiven	11	–	11	–
Unrealised exchange loss	3,784	–	3,784	–
Changes in assets and liabilities				
Increase in provisions	(620)	3,873	2,400	6,026
Decrease/(increase) in trade receivables	32,786	(43,557)	24,912	(42,472)
Decrease/(increase) in other receivables	(11,333)	24,371	(10,670)	24,694
Decrease in loans receivable	59,475	11,349	–	–
(Decrease) in accounts payable	(141,265)	(136,642)	(131,044)	(139,117)
(Decrease)/increase in loans payable	(17,319)	20,917	–	–
(Decrease) in leveraged lease provisions	(3,143)	(2,304)	(3,143)	(2,304)
Decrease in future income tax benefit	924	3,059	1,003	2,345
(Decrease)/increase in current income tax provision	(3,752)	1,669	(3,780)	1,986
Increase in provision for deferred income tax	1,496	16	1,500	–
Decrease/(increase) in inventories	4,073	10,237	328	4,385
(Increase)/decrease in advances receivable on contracts	4,480	4,898	4,480	4,898
Increase/(decrease) in advances payable on contracts	(24,613)	19,101	(24,613)	19,101
Net cash used in operating activities	(83,188)	(78,823)	(126,209)	(112,427)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

	Consolidated		Company	
	1998	1997	1998	1997
	\$'000	\$'000	\$'000	\$'000

30. NOTES TO STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within one working day, net of outstanding bank overdrafts.

Cash at the beginning of the financial year

Cash	6,146	4,963	5,245	4,533
Bank overdraft	<u>(6,270)</u>	<u>(1,351)</u>	<u>(6,270)</u>	<u>(1,122)</u>
	<u>(124)</u>	<u>3,612</u>	<u>(1,025)</u>	<u>3,411</u>

Cash at the end of the financial year

Cash	45,457	6,146	2,727	5,245
Bank overdraft	<u>(5,778)</u>	<u>(6,270)</u>	<u>(5,778)</u>	<u>(6,270)</u>
	<u>39,679</u>	<u>(124)</u>	<u>(3,051)</u>	<u>(1,025)</u>

31. RELATED PARTY DISCLOSURES

(a) Controlling Entities

The ultimate parent entity within the wholly-owned group is Mitsui & Co., Ltd, incorporated in Japan.

(b) Transactions within the wholly-owned group

Details of dividend and interest revenue, management fees and interest expense are disclosed in note 20.

Amounts receivable and payable to wholly-owned group entities are disclosed in notes 2,5,10,14 and 31. (e)

Other transactions that occurred between entities in the wholly-owned group are:

- Commission on trading transactions, at rates agreed between the parties.
- Transfer of tax losses for partial consideration.
- Purchase of computer equipment on normal commercial terms and conditions.
- Sale of computer equipment and provision of maintenance services on normal commercial terms and conditions.
- Loan facilities at normal commercial terms and conditions and in some cases, interest free.

(c) Director's Loans

The aggregate amount of loans advanced during the year to directors of the Economic Entity was \$62,000 and the directors concerned are K Arika and Y Hashimoto. The aggregate amount of loans repaid during the year by directors of the Economic Entity was \$55,000 and the directors concerned are F Kitahara, Y Miyoshi and T Koide. Interest paid during the year in respect of these loans amounted to \$6,000 (1997: \$8,000).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

31. RELATED PARTY DISCLOSURES (CONTINUED)

(d) Transactions with other related parties.

Details of interest revenue is disclosed in note 20.

Related Party	Transaction Type	1998 \$'000	1997 \$'000	Terms and Conditions
Body Corporate not 100% owned within the wholly owned group	Fees paid by related parties for Management services	1,104	1,281	Commercial terms and conditions
	Sales	–	2,003	Commercial terms and conditions

(e) Outstanding balances with entities within the wholly-owned group.

Loans receivable and payable are disclosed in notes 2, 5, 10 & 14.

Related Party	Transaction Type	1998 \$'000	1997 \$'000	Terms and Conditions
Ultimate Parent Company	Trade debtors			Commercial terms and conditions
	– Current	69,106	62,860	
	– Non-current	1,250	53	
	Other debtors			Commercial terms and conditions
	– Current	85	4,330	
	Trade creditors			Commercial terms and conditions
	– Current	31,619	20,255	
	– Non-current	–	4,535	
	Advances paid on contracts			Commercial terms and conditions
	– Current	4,335	4,309	
	– Non-current	100	3,933	
	Advances received on contracts			Commercial terms and conditions
– Current	8,111	8,862		
– Non-current	–	7,854		
Other creditors			Commercial terms and conditions	
– Current	9,817	33,800		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

31. RELATED PARTY DISCLOSURES (CONTINUED)

(e) Outstanding balances with entities within the wholly-owned group (continued)

Related Party	Transaction Type	1998 \$'000	1997 \$'000	Terms and Conditions
Related Bodies Corporate – Wholly-owned group	Trade debtors – Current	12,014	24,281	Commercial terms and conditions
	Other debtors – Current	2,681	6,621	Commercial terms and conditions
	Advances paid on contracts – Current	64	614	Commercial terms and conditions
	– Non-current	147	40	
	Trade creditors – Current	948	6,852	Commercial terms and conditions
	– Non-current	–	668	
	Advances received on contracts – Current	211	1,433	Commercial terms and conditions
– Non-current	–	23		
Other creditors – Current	3,409	2	Commercial terms and conditions	

(f) Outstanding balance with other related parties

Loans receivable are disclosed in note 2.

Related Party	Transaction Type	1998 \$'000	1997 \$'000	Terms and Conditions
Bodies Corporate not 100% owned within wholly-owned group	Trade debtors – current	88	–	Commercial terms and conditions
	Other debtors – current	563	–	Commercial terms and conditions
	Other creditors – current	251	–	Commercial terms and conditions

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

Consolidated	
1998	1997
\$'000	\$'000

32. OUTSIDE EQUITY INTERESTS

At year end the following represents the outside equity interest in the economic entity:

(a) Issued capital	-	1,800
(b) Accumulated losses	-	(6,367)
(c) Other reserves	-	-
	<u>-</u>	<u>(4,567)</u>

The outside equity interest was Mitsui & Co., Ltd.'s interest in the controlled entity Mitsui Computer Limited. Mitsui Computer Limited was liquidated during the year.

33. DETAILS OF CONTROLLED ENTITIES

	Country of Incorporation	Ownership interest	
		1998	1997
		%	%
Parent Entity			
MITSUI & CO. (AUSTRALIA) LTD.	Australia	100	100
Controlled entity			
Mitsui & Co. Financial Services (Australia) Ltd.	Australia	100	100
Mitsui Computer Limited	Australia	-	55
MCA Afforestation Pty Ltd.	Australia	100	100
Mitsui Accounting Services (Australia) Pty Limited	Australia	100	100
Mitsui Management Services (Australia) Pty Limited	Australia	100	100

34. ECONOMIC DEPENDENCY

The group was dependent during the financial year upon its ultimate parent company, Mitsui & Co., Ltd., Japan, for a significant volume of its trading transactions.

35. FINANCIAL REPORTING BY SEGMENTS

The group operates predominantly in the import/export trading industry. The operations of the group are conducted from Australia.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

36. FINANCIAL INSTRUMENTS

(a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset and financial liability, are disclosed in note 1 to the accounts.

(b) Objectives of Derivative Financial Instruments and Significant Terms and Conditions

The economic entity enters into various derivative financial instruments in the normal course of business. It does so to meet the needs of its customers for foreign exchange, interest rate and price protection, to earn trading and fee revenue, and to manage its own exposure to fluctuations in foreign exchange rates and commodity prices. The primary classes of derivatives used by the economic entity are foreign exchange contracts, cross currency swaps, interest rate swaps, and options.

Since most of the economic entities derivative transactions are related to hedges of underlying business exposures, market risk in those derivative instruments is basically offset by equal and opposite movements in the underlying exposure.

Commodity Trading

The economic entity has entered into contracts to purchase and sell various commodities in the future. Since the economic entity has the discretion to either settle these transactions in cash or by physical delivery, these contracts are not considered financial instruments. Committed commodity purchases are disclosed in note 27.

Gold Bullion Trading

The economic entity acts as principal and agent in the trading of gold bullion. In addition to spot purchases and sales of gold bullion, the economic entity also enters into contracts to purchase and sell gold bullion in the future. Interest rate swaps, cross currency swaps, forward foreign exchange contracts and options are utilised as part of this gold trading activity. As all gold transactions are matched on a back to back basis, usually with related entities, the economic entity has no exposure to market risks. Accordingly, disclosures in respect of financial instruments related to gold bullion trading are not considered meaningful and have therefore not been included in the disclosures below. The economic entities only exposure is in relation to credit risk, which is disclosed below.

(c) Interest Rate Risk

The economic entity is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The following table details the economic entity's exposure to interest rate risk for recognised financial assets and liabilities as at the reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

36. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest Rate Risk (continued)

1998	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate maturity			Non-Interest Bearing \$'000	Total \$'000
			Less than 1 Year \$'000	1 to 5 Years \$'000	More than 5 Years \$'000		
Financial Assets							
Cash	5.99	43,904				1,553	45,457
Trade debtors						128,979	128,979
Short term deposits	4.66	24,158					24,158
Bills of exchange	4.83		16,100				16,100
Short term loans receivable	5.26	93,534	44,603			9,700	147,837
Long term loans receivable	6.75			88,388	8,320		96,708
Advances paid on contracts						16,326	16,326
Investment in other corporations						153,546	153,546
Investment in leverage leases	9.20			279			279
	5.75	161,596	60,703	88,667	8,320	310,104	629,390
Financial Liabilities							
Bank overdraft	6.05	5,778					5,778
Trade creditors						84,833	84,833
Short term borrowings	5.24	131,250	98,951			9,700	239,901
Long term borrowings	6.10			127,406			127,406
Advances received on contracts						17,738	17,738
	5.55	137,028	98,951	127,406	-	112,271	475,656
1997							
Financial assets	5.50	190,128	228,055	118,665	11,408	306,418	854,674
Financial liabilities	4.79	161,454	326,779	77,915	8,408	118,656	693,212

Interest Rate Swaps

The economic entity enters into interest rate swaps to hedge its interest rate exposures. Under interest rate swap contracts, the economic entity agrees to exchange the difference between fixed and floating rate interest calculated on agreed notional principal amounts.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

36. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest Rate Risk (Continued)

Outstanding Contracts	Average Interest Rate		Notional Principal Amount	
	1998 %	1997 %	1998 \$'000	1997 \$'000
2 to 5 years	6.57	6.61	56,707	14,154
5 years and more	5.15	6.43	6,499	3,000
			63,206	17,154

(d) Foreign Exchange Risk

The economic entity is exposed to various risks associated with the effects of fluctuations in the exchange rates of foreign currencies on its financial position and cash flows. The economic entity enters into forward foreign exchange contracts and cross currency swaps for the purpose of reducing its foreign exchange risk.

Forward Foreign Exchange Contracts

It is the policy of the entity to enter into forward foreign exchange contracts to hedge foreign currency receivables and payables. Under forward foreign exchange contracts, the entity agrees to exchange specified amounts of various currencies at an agreed future date at a specified exchange rate.

The following table details the forward foreign currency exchange outstanding as at the reporting date:

Outstanding Contracts	Average Exchange Rate		Principal Amount	
	1998 %	1997 %	1998 \$'000	1997 \$'000
Sell US Dollars				
Less than 3 months	0.63	0.73	15,717	3,812
3 to 6 months	0.61	0.70	1,416	839
Longer than 6 months	0.66	0.72	23,425	25,951
Buy US Dollars				
Less than 3 months	0.63	0.70	17,356	8,215
3 to 6 months	0.62	0.71	2,645	87
Longer than 6 months	0.71	0.66	24,060	28,066
Sell Japanese Yen				
Less than 3 months	73.47	84.72	936	2,027
3 to 6 months	73.37	83.36	1,166	1,298
Longer than 6 months	73.25	82.45	2,826	2,181
Buy Japanese Yen				
Less than 3 months	79.58	85.44	556	1,480
3 to 6 months	76.24	84.59	16,991	652
Longer than 6 months	78.36	84.55	606	59
Buy US Dollars Sell Japanese Yen				
Less than 3 months	136.90	–	576	–
3 to 6 months	119.24	–	1,317	–
Longer than 6 months	117.40	–	1,143	–

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

36. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Foreign Exchange Risk (Continued)

Cross Currency Swaps

Under cross currency swap contracts, the economic entity agrees to exchange specified principal and interest foreign currency amounts at an agreed future date at a specified exchange rate. Such contracts enable the economic entity to mitigate the risk of adverse movements in foreign exchange rates.

The following table details the cross currency swaps outstanding as at the reporting date.

Outstanding Contracts	Average Exchange Rate		Principal Amount	
	1998 %	1997 %	1998 \$'000	1997 \$'000
Buy US Dollar				
2 to 5 years	0.6770	–	48,090	–
5 years and more	0.5935	0.7100	6,499	28,866
			54,589	28,866

(e) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the economic entity. The economic entities variety of businesses with diverse customers and suppliers reduces concentration of credit risk. The economic entity deals with selective international financial institutions to minimise the credit risk exposure of financial instruments with off-balance sheet risks. Management does not expect any losses as a result of counterparty default on financial instruments with off-balance sheet risk. Credit risk is managed through the credit line approval by management and by monitoring the counterparties periodically.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the economic entity's maximum exposure to credit risk in respect of those financial assets.

Credit risk in respect of derivatives arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity and is summarised as follows:

	1998 \$'000	1997 \$'000
Favourable interest rate swaps	644	4,389
Favourable cross-currency swaps	5,570	20,165
Favourable foreign exchange contracts	3,073	6,197
Favourable gold forward contracts	977	4,239

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1998

36. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the accounts.

The net fair value of financial assets and financial liabilities have been determined as follows:

- The net fair value of the financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Where amounts are payable or receivable within 12 months the carrying amount is taken to approximate the net fair value.
- The net fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow theory.

CONTACT DETAILS

HEAD OFFICE

Level 46 – Gateway
1 Macquarie Place
Sydney NSW 2000
Telephone: (02) 9256 9500
Facsimile: (02) 9251 1788

MELBOURNE OFFICE

Level 24 – Bourke Place
600 Bourke Street
Melbourne VIC 3000
Telephone: (03) 9605 8800
Facsimile: (03) 9605 8888

PERTH OFFICE

Level 24 – Forrest Centre
221 St George's Terrace
GPO Box A33
Perth WA 6000
Telephone: (08) 9476 2333
Facsimile: (08) 9324 1661

BRISBANE OFFICE

Level 15 – Waterfront Place
No. 1 Eagle Street
PO Box 7826, Waterfront Place
Brisbane QLD 4000
Telephone: (07) 3221 3211
Facsimile: (07) 3229 8529

NORTHERN TERRITORY

Level 3 – CML Building
59 Smith Street
Darwin NT 0801
Telephone: (08) 8941 4522
Facsimile: (08) 8941 9561

Additional copies of this report and other information may be obtained by contacting:

Craig Savage
Deputy General Manager
Accounting, Treasury and Information
Systems Division
Mitsui & Co. (Australia) Ltd.
Level 46 – Gateway
1 Macquarie Place
SYDNEY NSW 2000
Telephone: (02) 9256 9584

