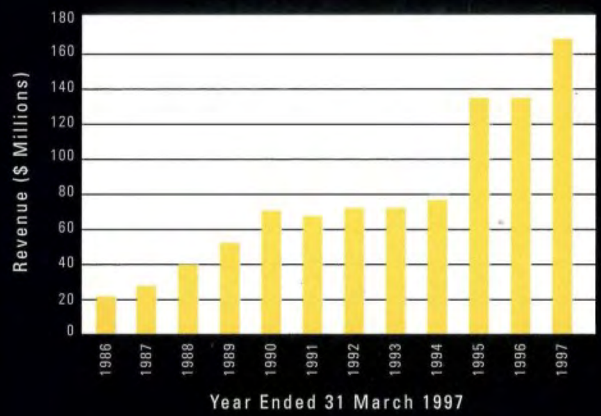
Annual Report 1997

MAINFREIGHT

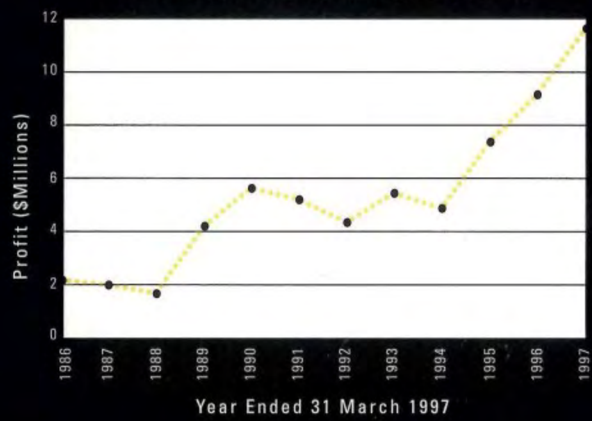
highlights of the 1997 year

- In its first year as a publicly listed company Mainfreight's shares increased by 72% and an interim dividend of 2.5 cents was paid to shareholders.
- Financial results were ahead of forecast.
- Mainfreight acquired Lep Freightways International Ltd and Combined Haulage Ltd.
- New purpose-built freight terminal was completed in Rotorua and a warehousing facility for Firestone Tire and Rubber Company of New Zealand Limited was opened in Christchurch.
- Mainfreight celebrated its 20th year of business.

Mainfreight Limited – Revenue



Mainfreight Limited
Profit Before Abnormals, Interest And Tax



Organisational Chart

contents

notice of meeting

Notice is hereby given that the Annual Meeting of Shareholders will be held in the Goldstar Room, Third Level - Ellerslie Stand, Ellerslie Race Course, Auckland, on Thursday 31st 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 1997.
2. **Re-election of Directors.** Mr Don Rowlands and Carl Howard-Smith, 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.

For and on behalf of the Board.

Carl Howard-Smith
Director
2 July 1997

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 on page 39 of this report, detailing the lodgement and exercise of proxies.

MAINFREIGHT LIMITED
473 GREAT SOUTH ROAD – PENROSE
AUCKLAND NEW ZEALAND
TELEPHONE (09) 526-6370
FAX (09) 526-6379
P.O. BOX 14-038, PANMURE – AUCKLAND

4 June 1997

The financial year ended 31/3/97 was a stimulating successful period where all our major objectives were achieved, while at the same time the foundations for the next decade were being laid.

On June 14th 1996 the company was formally floated on the New Zealand Stock Exchange, with shares issued at 96 cents each. By 31/3/97 these shares were trading at $1.30. At the time of writing this report, the shares are trading at $1.65, a 72% increase in less than 12 months and excluding the payment of a 2.5 cent interim dividend.

Net profit after tax of $5.953m was achieved compared to the prospectus forecast of $5.480m.

While sales have increased on the previous year by $32.030m (24%), without the purchase of Lep we would not have reached the forecast level. This is due to the effects of Daily Freight divesting itself of unprofitable business and changes in the recording of sales in Mainfreight International. The level of sales is considered to be satisfactory with some gains being made, especially in the last quarter.

In August 1996 we completed the construction of a 9294m^2 store on our Christchurch property, and commenced warehousing Firestone's entire output, including import, export and domestic.

Also in the same month in Christchurch we began a separate warehousing operation specialising in hazardous substances.

In September 1996 we purchased from Freightways Limited a 75% share in Lep Freightways International Ltd, changing the name to Lep International (N.Z.) Ltd. This is a significant business with sales in excess of $50m p.a.

In February 1997 we commenced operating our new purpose built 1393m^2 freight terminal at Rotorua.

In March 1997 we purchased the business of Combined Haulage Ltd and Senco Haulage Ltd. These two businesses have been merged into the Mainfreight operation and together have annual sales of $5m.

All our quality statistics improved during the year, with perhaps the largest improvement being recorded in claims.

In the previous year, we had moved 244 consignments before incurring a loss or damage. For the current year that figure improved to 329 consignments before incurring a loss or damage – an improvement of 35%, and a reduction in claims pay-out of $250,000.00.

As the level of complexity and sophistication of business increases, both in the marketplace and within our own company, the need to recruit the best possible people is paramount. In response to this we have begun an annual graduate intake, to add to the forty graduates already employed.

Over the past year, there have been a number of businesses which have relocated to Australia. The lowering of trans-Tasman freight rates has removed a barrier to encouraging manufacture in both countries. Whereas in the past we would have regarded the logistics chain as starting at the end of the New Zealand manufacturers assembly line, we now see a growing logistics chain beginning at the door of an Australian manufacturer.

As a result of this shift we are, and will continue to put a greater emphasis on the Australian market. In May 1997 we purchased approximately eight acres of industrial land in Melbourne, and propose building a $10{,}000m^2$ warehousing and under-bond facility during the 1998 financial year. As opportunities arise, we will seek to grow our infrastructure in Australia, at least partly to ensure we continue to service the New Zealand export market into Australia, as well as imports into New Zealand.

In a year when we appear to have got most things right, perhaps the most satisfying feature has been the growth and development of our senior people. In every area of our business we have reached levels and found solutions to an extent not possible three or four years ago. We are now in our twentieth year, and as exciting as it has been, we can hardly wait for the future.

Bruce Plested
Managing Director

directors

Don Rowlands, CBE, Chairman.

Bruce Plested, ACA, Managing Director.

Neil Graham.

Carl Howard-Smith, LLB.

John Fernyhough, LLM (Hons) (Victoria), Jr. Dur (Chicago).

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

forwarding division performance

Forwarding operations contributed $98.5m in revenues, down $2.35m from the previous year. Earnings before interest and tax (EBIT) was $8.28m, up $1.54m on last year. A total of 933,000 tonnes was moved during the period which was made up of 1.8 million consignments. This equates to 2,650 tonnes of freight for every day of the year, or six tonnes a day per team member.

Revenue The sales revenues were affected through the movement of two major customers (one from the building sector and the other in retail) to competitors, and the lower than usual Christmas tonnage, particularly through November which is normally our busiest month. The trend with these revenues is expected to reverse during the 1997/98 financial period with a number of new sales gains contributing. The more significant gains are from the food, beverage and grocery industries, the construction and building sectors and products from the electronics industry.

In conjunction with these gains, a number of projects are under way to further enhance our initiatives in full supply chain management. This has been enhanced with our partnership ethic with a number of established customers. These partnerships are exposing us to additional logistics activities which is developing our exposure across the broad spectrum of freight and distribution in New Zealand and overseas.

Our increased activities in metropolitan and wharf services in the Auckland region have seen 9,000 twenty foot equivalent ("TEU") container movements from the Auckland wharf alone during the 1997 year. Across town deliveries are also on the increase with gains coming from the February 1997 acquisition of Combined Haulage as well as organic growth from our established customer base.

Recent development of our Saleyards Road operation into an import/export container packing and unpacking operation will see these services further developed and additional revenue added to the freight forwarding domestic network.

Both branch and brand performance has been healthy. The acquisition of Combined Haulage has particularly assisted the Wellington and Full Truckload divisions. Daily Freight continues its excellent profit performance, however its revenues have not met prospectus expectations. Margins have increased through better revenues from existing accounts.

"New business growth relies upon a deep and growing pool of talent from within the Mainfreight team."

Chris Meyer, Alan Murray, Don Braid.

Chemcouriers has consolidated its position as the country's foremost specialised hazardous goods transport operator, which should be further enhanced with the increased legislation for hazardous goods transportation, expected to be through the Parliamentary process in early 1998. Chemcouriers increased its revenue base by 20% from the previous year. This trend is expected to continue through the 1997/98 year.

Costs The Forwarding Division's gross margin and profit levels increased during the year and this can be attributed to better linehaul and unit utilisation which we expect to continue throughout 1997, although a cautionary eye must be kept on possible government tax (Road User Charges) increases which may have an effect on our road operations. The departure of Searoad (coastal shipping operator) has minimally reduced our options for inter-island linehaul.

Costs for the year are down $400,000 with claims, equipment hire and labour being major contributors. A "Cost Out" programme has been initiated in the last quarter of the year with major cost expenditures being identified and renegotiated with suppliers. The full effect of these initiatives will contribute more to the 1998 financial result as most arrangements are effective from 1 April 1997.

Our quality measurements improved throughout the year with decreases in claims and a healthy increase in service levels, particularly meeting on-time transit requirements. Our ratio of claims per consignment handled is significantly down and will be a feature of our quality work practice programmes throughout the 1997/98 year to improve this position even more.

Outlook The outlook for the new year is positive, particularly with growth coming from our emerging partnership arrangements in supply chain management, increased metropolitan and wharf cartage arrangements throughout the country and the expansion of our services into the parcel network. Likewise the development of our trans Tasman strategies will see additional imported tonnage flow into the domestic transport network.

Forwarding Division Revenue as % of Total – Year Ended 31 March 1997

Forwarding Division EBIT as % of Total – Year Ended 31 March 1997

warehousing division performance

The Warehousing and Distribution Division has continued to mature during the 1997 financial year. The divisional result is satisfactory in view of the change in business mix and the new operations commenced during the period under review. Management have concentrated on improving margins by attracting clients who require a high level of quality and service together with exiting those customers that do not.

Overall division profitability has been strengthened by the opening of two new facilities in Christchurch being the Firestone Distribution Centre and a hazardous substances warehouse.

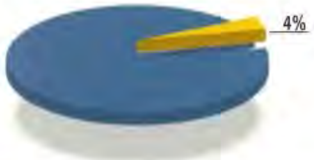
Revenue Divisional revenue was $6.83m, in line with the previous year, yet below forecast. This is due largely to the foretold departure of our largest warehousing client, retailer The Warehouse Limited. The overall effect of this business loss was offset by the opening of new facilities in Auckland, Christchurch and Dunedin, as well as new business growth.

Cost An improvement in warehouse utilisation resulted in better cost management at most sites. An emphasis upon order picking and dispatch activities has resulted in larger activity-based charging of our customers, rather than static storage rates. A variable charging base has enabled costs and margin per customer to be better analysed.

Outlook Warehouse occupancy rates remain high with several Auckland facilities requiring overflow space. An additional Auckland facility of a minimum 10,000m^2 will be required in the medium term.

The warehousing and distribution market appears to be gaining a wider acceptance across industry groups and is resilient to economic cycles. In times of slow growth organisations are looking to out-source to reduce costs whereas when the economy is growing they cannot cope with their expanding distribution requirements.

Warehousing Division Revenue as % of Total
– Year Ended 31 March 1997



Warehousing Division EBIT as % of Total
– Year Ended 31 March 1997

Kevin Drinkwater, Kiu Muller, Vicki Plaistowe.

"A high degree of expertise has quickly established Mainfreight's solid credentials in managed warehousing."

Australian operations contributed $6.3m in revenues, up $0.4m from the previous year. Earnings before interest and tax (EBIT) was $434,000, down $175,000 on last year. The result was disappointing, yet reflective of a change in both the business mix and management structure occurring in the Australian operation. A decision to move away from a reliance upon bulk storage of commodities resulted in additional costs associated with developing more specialised warehousing. New management appointments in Australia will place greater emphasis upon developing the trans-Tasman logistics solution.

Revenue Total sales increased by 7.5%. The major growth factor has been our entry into the Container Freight Station ("CFS") market and the introduction of specialised sidelifter equipment in to each branch. This is an area of significant potential to the Australian operation, with excellent feeder benefits to the Mainfreight activities in managed warehousing, wharf cartage and domestic distribution.

Costs Overheads increased by a greater percentage than sales. Major contributors were salaries and rent. This has occurred in response to expected volume increases in freight and CFS operations in the 1998 financial year.

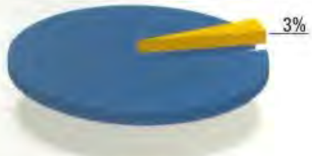
Outlook With a much improved operational base in Australia, we have the ability to create better margins and higher profits from the CFS activities, increased warehousing opportunities and an ability to develop more business through partnerships with our trans-Tasman clientele.

"Ultimately it comes down to having people who can do the job"

Tim Williams, Bill O'Loughlin, Bryan Curtis.

Australian Division Revenue as % of Total – Year Ended 31 March 1997

Australian Division EBIT as % of Total – Year Ended 31 March 1997



international division performance

The International Division comprises of two businesses – Mainfreight International, a 50% owned subsidiary, and Lep International (NZ) Limited, a 75% owned subsidiary. Both businesses operate within the international freight forwarding arena, each with a different focus. Mainfreight International offers its worldwide services via a network of agents who differ from country to country. By comparison, Lep International represents a principle arrangement, wherein all worldwide offices have a common thread of ownership and branding.

Revenue Consolidated revenue for the 1997 year was $52.3m. The exclusion of gross amounts, such as sale and excise tax from the revenues of Mainfreight International resulted in a lower overall sales figure. The decision to exit marginal business by Lep International also reduced the overall sales.

Costs The cost structure of the International division has lowered considerably on the previous year. At Mainfreight International the decision to close several loss-making branches and focus on the core Auckland, Wellington and Christchurch centres provided a lower overhead base. Lep International rationalised its Palmerston North, Christchurch and Dunedin branches in to Mainfreight premises in the 1997 year, with a consequent reduction in rental overhead.

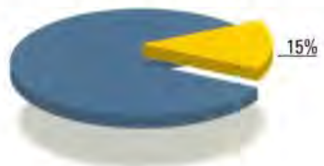
As the rates in trans-Tasman freight continued to soften in 1997, both of the International division entities sought new means to improve margin. Mainfreight International developed a new "Ocean Wings" product to expedite seafreight transit times. In turn, Lep International aligned its seafreight operations under the "Zealand" brand, with a focus upon door to door, full service freight movements.

Outlook The International division continues to operate as a significant source of growth and development for the wider services of the Mainfreight group. A continuing rationalisation of the Lep International activities and new facilities will result in a lower cost structure and an ability to better service its client base. Mainfreight International will benefit from a strong focus upon Asian and North American trade lanes as well as its traditional Australian business.

"International expansion is a great foil for geographic isolation."

International Division
Revenue as % of Total
– Year Ended 31 March 1997

International Division
EBIT as % of Total
– Year Ended 31 March 1997



Ian Beattie, Chris Dunphy, Graeme Mann.

Mainfreight's asset base is predominantly land and buildings. The business is multi-modal in its use of road, rail and shipping to move freight between its branches and ultimately to its customers.

Land Banks Because of the specialised nature of many of the activities undertaken by the group, Mainfreight prefers to own its facilities, rather than lease them. In turn, the growth experienced by the group has necessitated land purchases which ensure that the needs of tomorrow are accommodated. This approach is referred to as "land banking", where a site is purchased and only partially developed.

Mainfreight now has land banks in Whangarei, Auckland, Mount Maunganui, Rotorua, Napier, Palmerston North and Wellington. Where land banks are not in place, the group is seeking to purchase suitable properties. A former land bank in Christchurch was fully developed in the 1997 year.

Market Values As part of its ongoing development, Mainfreight has revalued its properties to market values every year. This results in branch managers using market rentals to provide a return from their operations.

The historic cost approach to valuation of the group's properties is now significantly understating the real market value of land and buildings. For this reason, Mainfreight intends to review whether properties should be revalued in the Statement of Financial Position.

Recent Purchases Mainfreight completed construction of a new facility at Rotorua in the year under review. In addition, land was purchased in Auckland. The Auckland site will house Lep International (NZ) Limited in a 6,000m^2 facility, with scope for a further 4,000m^2 of warehousing for future growth.

Since balance date, several land purchases have been entered in to:

- an 8 acre unconditional land purchase in Laverton, Melbourne; and
- a 20 acre conditional land purchase in Otahuhu, Auckland.

The strategy behind both purchases is to develop and build specialised facilities at rates which are cheaper than current commercial rentals.

Other Fixed Assets Purchases during 1997 included the ordering of eight "sidelifter" trailers, with a capital cost of $1.5m. This new plant was funded through a combination of operating leases and direct purchases by Mainfreight owner-drivers.

New shipping container equipment was also purchased. This adds to the existing capital stock of devices used to carry and segregate freight movements.

Mainfreight Property Portfolio

The acquisition of Lep Freightways International

In August 1996, Mainfreight acquired a 75% interest in Lep Freightways International Limited, from Freightways Limited. The consideration was $2.6m. Renamed Lep International (NZ) Limited, the business was purchased for the following reasons:

- It was for sale by motivated vendors and hence the purchase represented good value;
- The business operates in the freight and distribution sector – hence information risk was low;
- The business is located in the same major cities as Mainfreight – thus allowing for sharing of overheads, such as building and equipment rentals, labour and related overheads; and
- The residual 25% share was retained by Lep International Worldwide, which provides stability to the agency franchise as well as insight as to how multi-national freight forwarders operate.

In less than 12 months, Mainfreight has been able to enhance the returns from its investment in Lep NZ, with further scope to raise profitability.

LEP

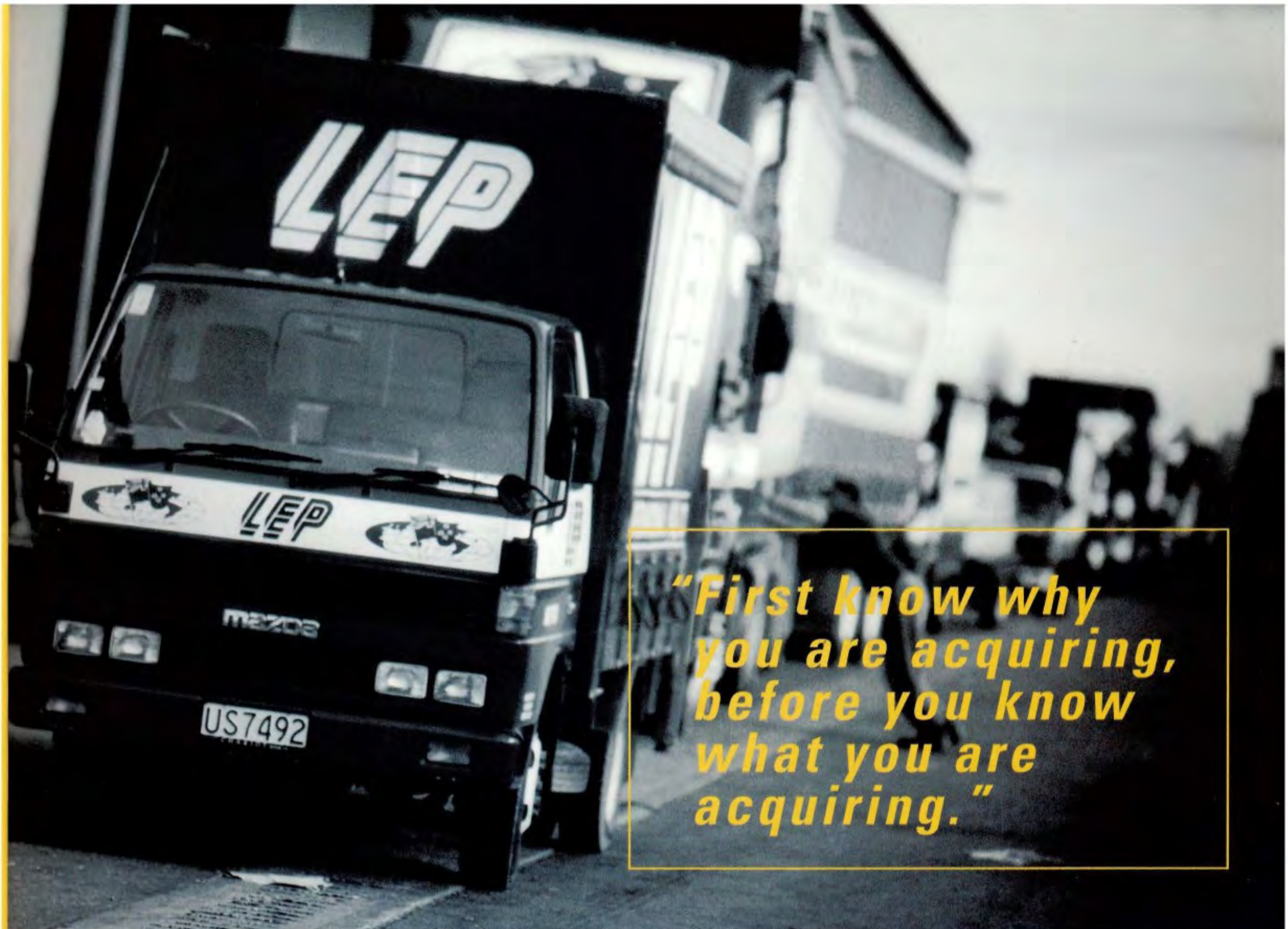
New warehousing partnership with Firestone

After three years of operating as the domestic freight forwarder for Firestone Tire & Rubber Company of New Zealand Limited, Mainfreight was invited to investigate the management of Firestone's finished goods warehousing requirements in March 1993. The project took several different directions before a final sign-off was obtained from both parties in February 1996. Construction commenced in April 1996 and was completed in August 1996. Mainfreight and Firestone now manage the warehouse stock from the time of leaving the manufacturing line, through to receipt at the retail outlet. This provides the customer with an enviable amount of operational data which can be used for marketing and production planning purposes. The success of this purpose-built facility is due to the following:

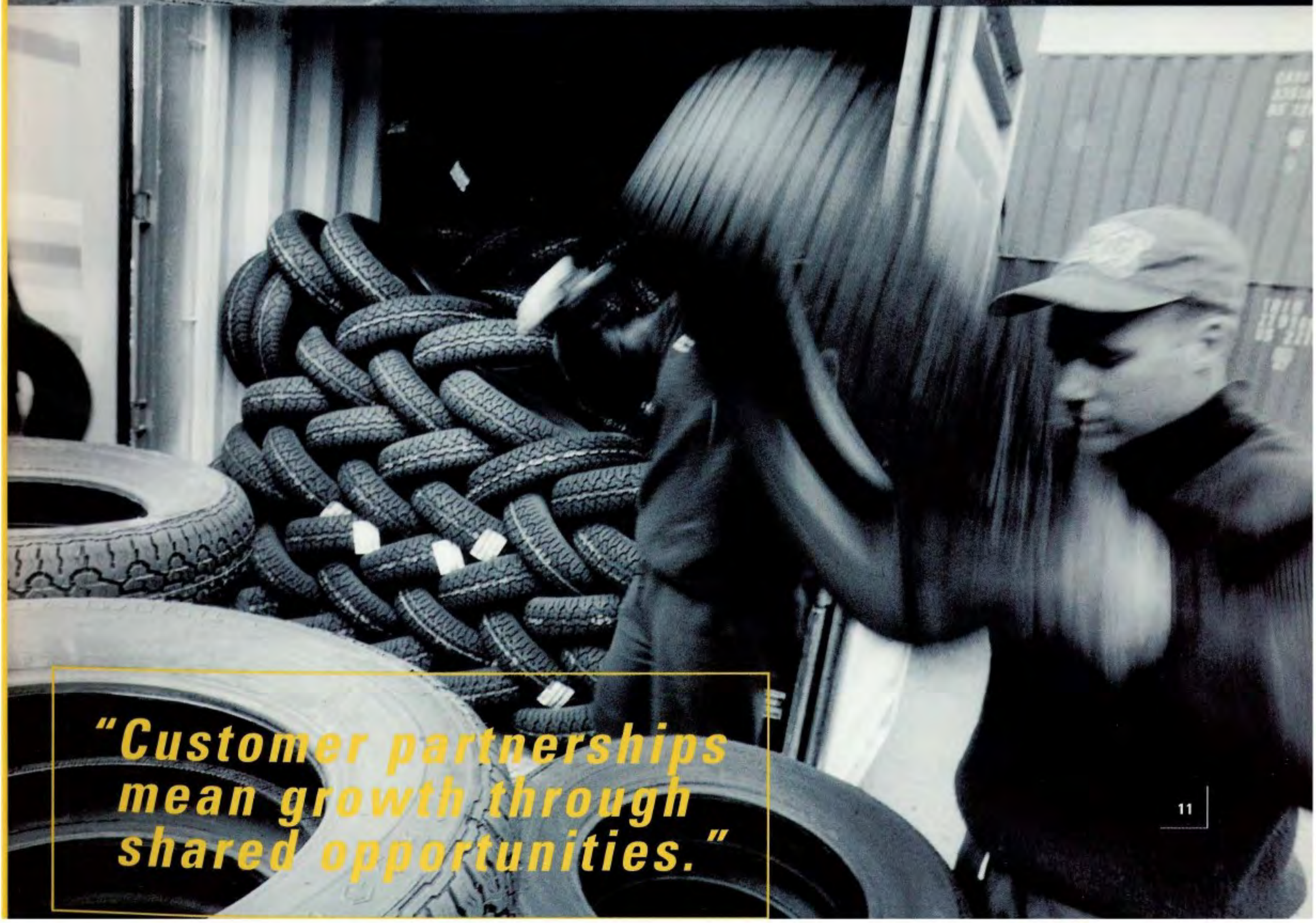
- Both Firestone and Mainfreight had an established working partnership in domestic distribution – hence there was a high level of trust and integrity in the relationship;
- Firestone was prepared to change its existing warehouse arrangements in order to make quantum improvements in its finished goods deliveries – by taking a managed risk, the client expected an improved return; and
- Both parties sought to improve their returns over the previous warehouse and distribution arrangements – thus the benefits of the change were shared.

The ability to develop business partnerships with customers relies upon an acceptance of both parties making a fair and reasonable return on their investment. Once this is acknowledged, both parties can focus on the expansion of business and the reduction of cost.

Firestone



"First know why you are acquiring, before you know what you are acquiring."



"Customer partnerships mean growth through shared opportunities."

Mainfreight continues to grow through a combination of new business initiatives and acquisitions. The overall plan is to delight our customers through the fulfilment of their logistics needs. Four examples of new business and growth initiatives planned for the 1998 financial year are outlined below.

One Market trans-Tasman The impetus for streamlining border documentation and improving freight services between New Zealand and Australia has grown dramatically in the last 12 months. Mainfreight seeks to grow its logistics activities in Australia in 1998. The focus is upon the trend of manufacturers retrenching manufacturing operations in New Zealand in favour of bigger plants in Australia. Mainfreight can provide all the logistics from manufacturer's production line to delivery at the point of consumption.

Managed Warehousing & Facilities Management The Mainfreight/Firestone partnership in managed warehousing is now a standard by which other out-sourcing opportunities are being explored. The expectation is for several existing Forwarding division customers to make similar commitments to purpose-built, Mainfreight-owned and managed facilities in 1998.

Chemcouriers The development of a South Island network during 1997 saw Chemcouriers become a true national operator providing its customers with a network across both North and South Island cities. The introduction of hazardous goods warehousing in Christchurch has provided customers with opportunity to service most markets overnight. It is expected that the current warehouse in Christchurch will have to move to larger premises in 1998 to facilitate the interest and growth achieved currently.

Parcels Mainfreight was founded upon a less-than-container-load (LCL) customer base. As technology and frequency have reduced consignment sizes to smaller items demanded on a seven day basis, the freight customer has continued to request Mainfreight to expand the service network to cover the movement of parcels. Parcels are generally defined as consignments under 35 kilograms. In answer to this market need, a Mainfreight parcel service will commence in August 1997.

"We never let our vision for growth cloud our eye for opportunity"

Lep International's new Auckland facility, completion December 1997.

The values that drive the quality ethic are the desire to provide in full, on time and damage free service to our customers. An attitude to perform the tasks set today a little bit better than yesterday encourages the entrepreneurial creative spirit of the people.

Key performance indicators are examined daily to assess the quality standards. These indicators range from pick-up and delivery times, shortlands, overlands, damages and transit performance. Emphasis on a number of quality issues in the last 12 months have produced a direct flow-on effect to claims resulting in an overall reduction in dollar terms of twenty per cent. Further quality improvements are expected in the 1998 financial year.

"Quality is more than an ISO certificate – it's an attitude to the task."

Each day Mainfreight moves 2,650 tonnes of freight – the equivalent of six tonnes per team member.

"Teach them today and they'll lead tomorrow."

In recent years Mainfreight has supported Otara's Bairds Road Primary School by providing educational equipment and apparel. In 1997 Mainfreight became the first company in New Zealand to formally sponsor a school and in recognition of this, the name has become Baird's Mainfreight Primary School.

Mainfreight people

As the Mainfreight group approaches its twentieth year in business total team numbers have reached 1,000 people. Mainfreight recognises that good people are the 'X' factor when it comes to delivering service of exceptional quality. To ensure leadership for future growth and the realisation of the 100 year vision, Mainfreight is placing a strong emphasis on the development of its people.

Mainfreight's philosophy is to 'promote from within' and to ensure this remains viable, Mainfreight is approaching the education of its people on two fronts:

Recruitment of career-focussed graduates In the 1997 year 20 graduates were recruited and began training on the ground floor of the business. While these young people learn the dynamics of the industry, they are also exposed to the culture and philosophy. An understanding of the Mainfreight culture is intrinsic to both the individuals' success and company's endurance.

To maintain the graduate recruitment programme Mainfreight is cultivating a relationship with all the New Zealand Universities to promote to undergraduates the career opportunities in the freight and distribution sector.

Development and training of the existing team On the job training consists of a number of tried and novel ways to improve the performance of the Mainfreight team. Examples include "buddy" programmes and branch team swaps, where roles are reversed and people move between operations to gain an insight in to how their actions affect other parts of the organisation. This is reinforced by weekly "positive action" team meetings, regular performance assessments and appraisals.

In-house training programmes, videos and procedural manuals are used extensively to ensure people understand the requirements in meeting the quality standards. Educational and learning experiences are also provided by external agencies as new competencies are sought for the development of the group.

In the past 19 years, Mainfreight has paid an annual profit sharing bonus to all team members. This is paid on a branch by branch basis, whereby 10% of the pre-tax profits are divided equally amongst all qualifying members of the team.

This year, the total bonus of $1,094m was divided amongst 457 people.

"We want more B.Coms on forklifts."

University graduates Matt "Smiley" Dooney and Olivia Blaylock.

The Directors are pleased to present this second published annual report following the introduction of public shareholders and listing on the New Zealand Stock Exchange on 14th June 1996.

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 \$163m, up on the previous year by \$32m (24.5%). Acquisitions contributed \$35.9m. The net surplus after tax (before minorities) increased by 26.0%, from \$5.004m to \$6.305m. This result included abnormal flotation costs of \$0.525m with acquisitions contributing \$0.342m. This improvement was due to higher margins in our Forwarding activities. The result was ahead of our Prospectus forecast, dated 6th May 1996, of \$5.68m by 11.0%. Further comparisons to that forecast are set out in note 17 of the Financial Statements.

Financial Position The Group has maintained a strong financial position, with shareholders' equity of \$23.049m, funding 35.6% of total assets. Earnings cover interest on debt ten times. Net cash flow from operations was \$4.629m, down from \$8.073m last year. Unsatisfactory debtor collections in the last quarter are currently being addressed. Acquisition purchases, primarily Lep International (NZ) Ltd, resulted in the rise of net cash invested from \$6.854m to \$8.137m. Net cash flow from financing activities was a surplus of \$1.435m compared to a deficit of \$1.546m through loans uplifted to finance acquisitions.

Dividend An interim dividend of 2.5 cents per share was paid on 13 December 1996, 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 8th July 1997, is proposed together with a supplementary dividend of 0.53 cents per share for non-resident shareholders. The final dividend will be paid on 8th July 1997 to shareholders on the register of members at 4.00pm on 4th July 1997.

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

Directors Mr D.D. Rowlands CBE and Mr C.G.O. Howard-Smith 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 has found quarterly reporting extremely effective in communicating the Group's affairs to shareholders, the Stock Exchange, regulatory bodies and the media. The first quarter result to 30 June 1997 will be released on 22nd August 1997.

Outlook The Directors are confident that the excellent first year as a public company will be overshadowed by the second year. Management's continuing focus upon operating margins, combined with new business developments and selective acquisitions are expected to enhance returns to shareholders.

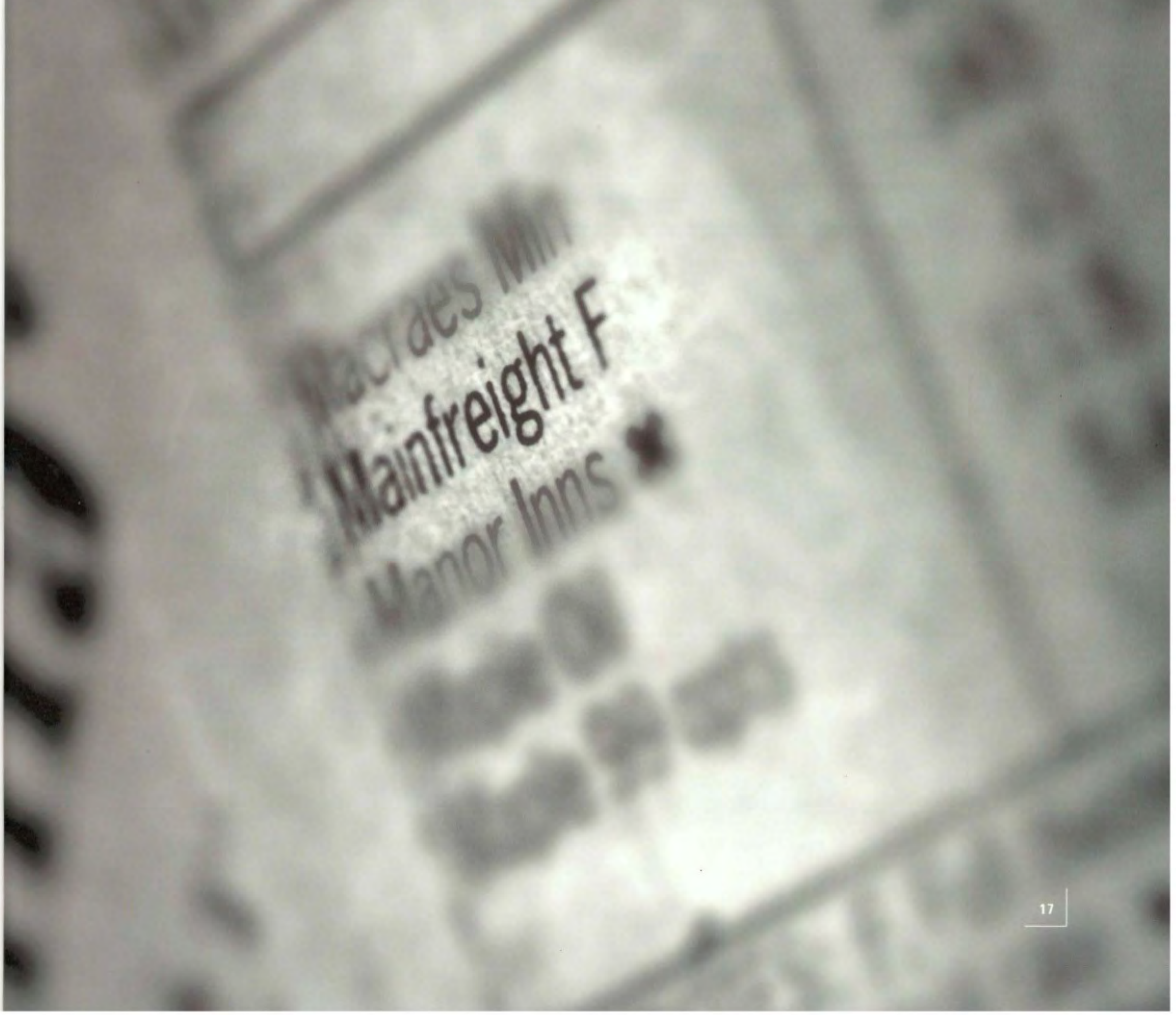
For and on behalf of the Board

2 July 1997

Don Rowlands, Chairman

Carl Howard-Smith, Director

financials contents



Statement of Financial Performance for the Year Ended 31st March 1997

	Notes	Group 1997 $000	Group 1996 $000	Parent 1997 $000	Parent 1996 $000
Operating Revenue		$162,872	$130,842	$ 77,314	$77,916
Surplus Before Taxation for the Year	2	9,794	7,624	7,211	5,237
Income Tax Expense	4	3,489	2,620	2,033	1,696
Surplus After Taxation for the Year		6,305	5,004	5,178	3,541
Minority Interest in Profits of Subsidiaries		(352)	(235)	–	–
NET AND OPERATING SURPLUS FOR THE YEAR		$ 5,953	$ 4,769	$ 5,178	$ 3,541

Statement of Movements in Equity for the Year Ended 31st March 1997

Equity at the Beginning of the Year	20,823	16,853	19,132	16,591
Net Surplus for the Year	5,953	4,769	5,178	3,541
Total Recognised Revenues and Expenses for the Year	5,953	4,769	5,178	3,541
Contributions from Owners (ESOP)	405	–	405	–
Movements in Minority Interest during the Year	209	201	–	–
Supplementary Dividends	(15)	–	(15)	–
Dividends Paid and Proposed	(3,293)	(1,000)	(3,293)	(1,000)
Foreign Investor Tax Credit	15	–	15	–
EQUITY AT END OF THE YEAR	$ 24,097	$ 20,823	$ 21,422	$19,132

The accompanying notes form part of these financial statements.

Statement of Financial Position as at 31st March 1997

	Notes	Group 1997 $000	Group 1996 $000	Parent 1997 $000	Parent 1996 $000
Shareholder's Equity					
Share Capital	3	19,380	5,200	19,380	5,200
Accumulated Surplus		3,669	14,784	2,042	13,932
Shareholder's Equity		23,049	19,984	21,422	19,132
Minority Interest		1,048	839	–	–
TOTAL EQUITY		24,097	20,823	21,422	19,132
Non-current Liabilities					
Bank Term Loan	5	14,100	10,000	14,100	10,000
Finance Lease Liability	6	2,040	55	1,436	–
		16,140	10,055	15,536	10,000
Current Liabilities					
Bank Overdraft		1,320	467	1,857	1,857
Creditors & Accruals		18,275	11,822	8,140	7,584
Employee Entitlements		2,116	1,574	1,170	1,046
Provision for Taxation		208	350	9	18
Provision for Dividend		1,793	–	1,793	–
Finance Lease Liability	6	842	14	786	–
		24,554	14,227	13,755	10,505
TOTAL LIABILITIES AND EQUITY		$ 64,791	$ 45,105	$ 50,713	$39,637
Non-current Assets					
Fixed Assets	7	34,732	27,452	28,578	22,013
Goodwill	8	2,852	234	–	–
Investment in Subsidiaries	10	–	–	8,534	6,007
Current Assets					
Short Term Deposits		2,080	3,300	180	2,700
Trade Debtors		23,264	13,870	10,062	8,405
Dividend Receivable		–	–	1,500	–
Other Debtors		876	93	1,328	416
Employee Share Purchase	9	326	–	326	–
Deferred Tax Asset	4	661	156	205	96
		27,207	17,419	13,601	11,617
TOTAL ASSETS		$ 64,791	$ 45,105	$ 50,713	$39,637

The accompanying notes form part of these financial statements.

For and on behalf of the Board

Dated 2 July 1997 — D. D. Rowlands CBE, Chairman — C. G. O. Howard-Smith, Director

Statement of Cash Flows for the Year Ended 31st March 1997

	Notes	Group 1997 $000	Group 1996 $000	Parent 1997 $000	Parent 1996 $000
Cash Flows From Operating Activities					
Cash was provided from :					
– Receipts from Customers		161,740	131,147	75,841	77,566
– Interest Received		199	157	113	128
		161,939	131,304	75,954	77,694
Cash was dispersed to :					
– Payments to Suppliers		(152,196)	(119,352)	(70,094)	(68,660)
– Subvention Payment		–	–	–	(1,255)
– Interest Paid		(1,271)	(1,251)	(1,260)	(1,155)
– Income and Other Taxes Paid		(3,843)	(2,628)	(2,151)	(1,846)
		(157,310)	(123,231)	(73,505)	(72,916)
NET CASH FLOWS FROM OPERATING ACTIVITIES	14	$ 4,629	$ 8,073	$ 2,449	$ 4,778
Cash Flows From Investing Activities					
Cash was provided from :					
– Proceeds from Sale of Assets		440	1,977	394	1,923
– Repayments by Employees and Contractors		80	68	80	68
– Daily Freight (1994) Ltd Advance		–	–	–	1,471
– Repayment of Loan by Mainfreight Trust		–	173	–	173
– Cash from Acquisitions		213	–	–	–
– Sale of Shares in Mainfreight Distribution Pty Ltd		–	93	–	93
		733	2,311	474	3,728
Cash was applied to :					
– Purchase of Fixed Assets		(4,964)	(9,060)	(7,587)	(7,907)
– Advances to Employees and Contractors		(16)	(105)	(16)	(105)
– Purchase of Shares		(3,890)	–	(3,400)	–
		(8,870)	(9,165)	(11,003)	(8,012)
NET CASH FLOWS FROM INVESTING ACTIVITIES		$ (8,137)	$ (6,854)	$(10,529)	$(4,284)
Cash Flows From Financing Activities					
Cash was provided from :					
– Proceeds of Long Term Loan		4,100	76	6,323	–
– Advances by Lep International (NZ) Ltd		–	–	658	–
– Employee Share Scheme	9	79	–	79	–
– Advances by Shareholders		–	1,804	–	1,804
		4,179	1,880	7,060	1,804
Cash was applied to :					
– Dividend Paid to Shareholders		(1,500)	(1,000)	(1,500)	(1,000)
– Dividend Paid to Minority Interest Shareholder		(100)	(50)	–	–
– Repayment of Loans		(1,144)	(15)	–	–
– Repayment of Shareholder Advances		–	(2,361)	–	(2,361)
		(2,744)	(3,426)	(1,500)	(3,361)
NET CASH FLOWS FROM FINANCING ACTIVITIES		$ 1,435	$ (1,546)	$ 5,560	$(1,557)
NET (DECREASE) INCREASE IN CASH HELD		(2,073)	(327)	(2,520)	(1,063)
ADD OPENING CASH BROUGHT FORWARD		2,833	3,160	843	1,906
ENDING CASH CARRIED FORWARD		$ 760	$ 2,833	$ (1,677)	$ 843
Comprised					
Short Term Deposits		2,080	3,300	180	2,700
Bank Overdraft		(1,320)	(467)	(1,857)	(1,857)
		$ 760	$ 2,833	$ (1,677)	$ 843

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. Statement of Accounting Policies

A. General 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.

B. Particular Accounting Policies

The following particular accounting policies which significantly affect the measurement of financial performance and of financial position have been applied:

(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 1997. 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 charged using the diminishing value method 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 on exchange, both realised and unrealised, are recognised in the period in which they occur by way of a credit or charge in the Statement of Financial Performance.

(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 installments 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.

C. Changes in Accounting Policies

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

2. Surplus Before Taxation

The Surplus before Taxation is stated:	Group 1997 $000	Group 1996 $000	Parent 1997 $000	Parent 1996 $000
After Charging (Crediting) :				
Audit Fees and Expenses	115	113	70	84
Other Fees Paid to Auditors	93	52	93	52
Depreciation	2,411	2,322	1,455	1,318
Directors Fees	157	58	157	58
Flotation Costs	525	122	525	122
Interest: Fixed Loans	1,084	1,035	1,084	1,035
Finance Leases	61	8	–	–
Other Interest	126	208	176	120
Bad Debts Written Off	101	211	125	155
Change in Bad Debt Provision	52	182	(24)	72
Donations	49	73	49	73
(Surplus) Deficit on Disposal of Fixed Assets	(45)	341	(45)	327
Subvention Payment	–	–	–	1,255
Rental & Operating Lease Costs	4,374	3,558	2,411	2,181
After Crediting :				
Interest Income	198	166	118	137
Rental Income	805	478	1,319	495
Dividend received	–	–	1,600	887
Foreign Currency Gains	174	62	–	–

3. Share Capital

Authorised, Issued and Paid Up Capital 59,768,140 ordinary shares	19,380	5,200	19,380	5,200

On 3 April 1996 a taxable bonus issue of 13,775,226 ordinary $1.00 shares, with full imputation credits attached, was made out of retained earnings, increasing the share capital to 18,975,226 ordinary $1.00 shares.

On 30 April 1996 the share capital of the Company was subdivided in the ratio of 6.25 shares of 32 cents each for every two shares of $1.00 each.

On 3 May 1996 the Company was re-registered under the Companies Act 1993.

On 14 June 1996 the Company was listed on the New Zealand Stock Exchange.

On 21 August 1996 the Company issued 470,560 ordinary shares to the Trustees of the Mainfreight Ltd Staff Share Purchase Scheme for 86 cents per share.

4. Taxation

	Group		Parent	
	1997 $000	1996 $000	1997 $000	1996 $000
Surplus Before Taxation	9,794	7,624	7,211	5,237
Prima facie taxation at 33% (31 March 1996 33%)	3,232	2,516	2,380	1,728
Adjusted by the tax effect of :				
Non-assessable dividend income	–	(16)	(528)	(293)
Subvention payment	–	–	–	277
Other non-assessable revenues	(13)	(119)	(13)	(118)
Non-deductible expenses	270	239	194	102
	3,489	2,620	2,033	1,696
Represented by :				
Current Tax	4,150	2,776	2,238	1,792
Deferred Tax	(661)	(156)	(205)	(96)
	3,489	2,620	2,033	1,696

Deferred Tax Account				
Opening balance	(156)	(18)	(96)	29
Adjusted for the tax effect of :				
Movements in provision for doubtful debts	(51)	(60)	1	(24)
Difference between accounting and tax accumulated depreciation	(151)	–	–	–
Movement in holiday pay and bonus accrual	(59)	(89)	(15)	(80)
Uncompleted sale and linehaul	(145)	(31)	(95)	(28)
ACC accrued	(99)	42	–	7
Closing Balance	(661)	(156)	(205)	(96)

Imputation Credit Account				
Imputation and Dividend Withholding Payment Credits				
Opening balance	7,202	5,636	6,785	5,372
Credits distributed during the year	(7,941)	(542)	(7,523)	(492)
Credits received during the year	55	25	49	437
Tax payments made	3,468	2,083	2,150	1,468
Closing balance	2,784	7,202	1,461	6,785
Representing credits available to owners of the Group at balance date :	2,784	7,202	1,461	6,785

5. Term Liabilities

Term liabilities fall due for repayment in the following periods :

	Group		Parent	
	1997 $000	1996 $000	1997 $000	1996 $000
Current	–	–	–	–
Non-Current	14,100	10,000	14,100	10,000
	14,100	10,000	14,100	10,000

In April 1996 the banking facility of the Group with Westpac Banking Corporation was re-negotiated. Mortgages over specific properties have been released leaving a debenture and cross company guarantees in place. The long term facility limit has been increased to $20,000,000. Principal is repayable in April 1999 unless the facility is extended. Interest was payable at the average rate of 10.1% per annum.

6. Leases

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

	Group 1997 $000	Group 1996 $000	Parent 1997 $000	Parent 1996 $000
Finance Lease Liabilities				
Payable :				
– not later than one year	1,135	22	991	–
– later than one year but not later than two years	1,166	22	1,022	–
– later than two years but not later than five years	1,165	36	557	–
– after five years	–	–	–	–
Minimum Lease Payments	3,466	80	2,570	–
Less Future Finance Charges	(584)	(11)	(348)	–
	2,882	69	2,222	–
Classified in the Statement of Financial Position as				
Current	842	14	786	–
Non-Current	2,040	55	1,436	–
	2,882	69	2,222	–
Operating Lease Commitments				
– not later than one year	3,833	3,146	2,237	2,149
– later than one year but not later than two years	2,081	2,626	1,420	1,831
– later than two years but not later than five years	1,624	2,690	1,058	2,308
– after five years	1,167	1,288	911	1,007
	8,705	9,750	5,626	7,295

7. Fixed Assets

Group

Asset Description	1997 Cost $000	1997 Accum Depn $000	1997 Book Value $000	1996 Accum Cost $000	1996 Book Depn $000	1996 Value $000
Freehold Land	5,584	–	5,584	4,723	–	4,723
Buildings	18,971	2,120	16,851	15,828	1,608	14,220
Leasehold Improvements	2,281	663	1,618	1,789	454	1,335
Plant, Vehicles and Equipment :						
– Owned	17,231	10,152	7,079	14,131	7,014	7,117
– Finance Leases	3,642	42	3,600	65	8	57
Totals	47,709	12,977	34,732	36,536	9,084	27,452

At 31 March 1997 Registered Valuers Darroch and Co Ltd performed a valuation of the Group's land and buildings at $30,490,000 (March 1996 $23,996,000). 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

Parent

Asset Description	1997 Cost $000	1997 Accum Depn $000	1997 Book Value $000	1996 Accum Cost $000	1996 Book Depn $000	1996 Value $000
Freehold Land	5,584	–	5,584	4,723	–	4,723
Buildings	17,807	2,007	15,800	14,664	1,539	13,125
Leasehold Improvements	598	328	270	427	295	132
Plant, Vehicles and Equipment :						
– Owned	9,591	5,626	3,965	9,246	5,213	4,033
– Finance Leases	2,959	–	2,959	–	–	–
Totals	36,539	7,961	28,578	29,060	7,047	22,013

At 31 March 1997 Registered Valuers Darroch and Co Ltd performed a valuation of the Company's land and buildings at $25,624,000 (March 1996 $20,281,000). 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

8. Goodwill

	Group		Parent	
	1997 $000	1996 $000	1997 $000	1996 $000
Opening balance	234	–	–	–
Amounts Paid for Acquisitions during the year in excess of their net tangible assets	2,773	234	–	–
Goodwill Amortised over Period	(155)	–	–	–
Closing Balance	2,852	234	–	–
Goodwill arose during the year from the purchase of :				
Mainfreight Distribution Pty Ltd (20% of shares)	–	234	–	–
Mainfreight Distribution Pty Ltd Share Buyback (20% of shares)	235	–	–	–
Lep International (1996) Ltd (75% of shares)	1,758	–	–	–
Combined Haulage Ltd / Senco Haulage Ltd (100% of shares)	745	–	–	–
G & L Casey (100% of business assets)	35	–	–	–
	2,773	234	–	–

9. Employee Share Purchase Scheme

On 21 August 1996 the Company issued 470,560 ordinary shares to the Trustees of the Mainfreight Team Share Purchase Trust for 86 cents per share. Fulltime staff of the Group with a minimum of one years continuous service were qualified to participate in the scheme. 173 staff took up the offer and were allocated 2,720 shares each at a discount of 10% to the price at which shares were offered to the public, as disclosed in the prospectus dated 6 May 1996. The purchase price is repayable over three years with nil interest. Trustees control the voting rights of the shares.
The shares issued amount to 0.8% of issued capital. The power to appoint and remove trustees of the scheme is held by the Company's Board of Directors.

Opening balance	–	–	–	–
Value of Shares Issued During the Year	405	–	405	–
Value of Shares Cancelled During the Year	–	–	–	–
Staff Loan Repayment During the Year	(79)	–	(79)	–
Closing Balance	326	–	326	–

10. Investment in Subsidiary Companies

The Parent Company's investment in subsidiary companies comprised :

	1997 *$000*	*1996* *$000*
Shares at Cost	8,534	6,007

Subsidiary Companies Include:	*Balance Date*	*Principle Activity*	*Percentage Shareholding*	
Mainfreight International Limited	31 March	International Freight Forwarding	50%	50%
Mainfreight Distribution Pty Limited	31 March	Freight Forwarding	100%	80%
Daily Freight (1994) Limited	31 March	Freight Forwarding	100%	100%
Lep International (1996) Ltd	31 March	International Freight Forwarding	75%	Nil
Combined Haulage Ltd	31 March	Road Transport	100%	Nil
Senco Haulage Ltd	31 March	Road Transport	100%	Nil

On 1 April 1996 Mainfreight Distribution Pty Ltd agreed to buy back the shares of its remaining minority shareholders (representing 20% of the share capital of Mainfreight Distribution Pty Ltd.). 10% was purchased from each of Judith Davies and Brian Curtis for $200,000 each. Both of the vendors continue as executives of Mainfreight Group.

On 30 August 1996 Mainfreight Ltd acquired 805,338 shares in Lep International (1996) Limited for $2,126,607 representing 75% of shares and paid $473,393 for the debenture held by the previous shareholder.

On 14 February 1997 Mainfreight Ltd acquired 822,000 shares in Combined Haulage Ltd and 1,000 shares in Senco Haulage Ltd for $400,000 representing 100% of shares.

On 14 December 1996 Daily Freight (1994) Ltd acquired the business assets of G & L Casey for $60,000.

All acquisitions were paid for in cash.

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

	Lep	*Combined /Senco*	*G & L Casey*	*Total*
MINORITY INTEREST	123	–	–	123
NON-CURRENT LIABILITIES	–	1,436	–	1,436
Bank Overdraft	–	31	–	31
Creditors and Accruals	6,309	1,131	–	7,440
Employee Entitlements	228	–	–	228
Provision for Taxation	48	–	–	48
Finance Lease Liabilities	–	1,892	–	1,892
CURRENT LIABILITIES	6,585	3,054	–	9,639
TOTAL LIABILITIES	6,708	4,490	–	11,198
FIXED ASSETS	370	3,317	25	3,712
Cash and Short Term Deposits	213	–	–	213
Trade Debtors	6,514	692	–	7,206
Other Debtors	111	136	–	247
Deferred Tax Asset	342	–	–	342
CURRENT ASSETS	7,180	828	–	8,008
TOTAL ASSETS	7,550	4,145	25	11,720
NET ASSETS	842	345	25	522

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 no capital commitments at 31st March 1997 (31st March 1996 $3,240,000).

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 20 May 1997 the Company entered into a conditional agreement to purchase land in Auckland for $2,750,000.

On 5 June 1997 the Company entered into a conditional agreement to purchase land in Melbourne, Australia for $A1,088,000 (approximately $NZ1,210,000).

On 20 June 1997 a one for five rights issue was announced. The issue price for the new shares is to be $1.25 with all shares to participate equally. As per the Prospectus dated 6 May 1996 the executive share options carry the right to participate in the rights issue as if the options had been exercised. The record date is to be 4 July 1997 with a rights issue prospectus released on 8 July 1997. The purpose of the rights issue is to fund land and buildings developments and future business acquisitions.

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***	***Eliminations***	***1997 $000 Consolidated***
Operating Revenue :					
– sales to customers outside the group	104,583	52,131	6,158	–	162,872
– intersegments 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

					1996 $000
Operating Revenue :					
– sales to customers outside the group	107,150	17,931	5,761	–	130,842
– intersegments sales	557	87	126	(770)	–
Total Revenue	107,707	18,018	5,887	(770)	130,842
Segment and Group Result	6,644	362	618	–	7,624
Segment and Total Assets	40,688	2,792	1,716	(91)	45,105

14. Reconciliation of Cash Flows with Reported Net Surplus

	Group		Parent	
	1997 $000	1996 $000	1997 $000	1996 $000
Net surplus/deficit	6,305	5,004	5,178	3,541
Non-cash items :				
Depreciation	2,411	2,322	1,455	1,318
Amortisation of goodwill	155	–	–	–
Increase (decrease) in deferred tax liability	(163)	(138)	(109)	(125)
	8,708	7,188	6,524	4,734
Add (less) movements in other working capital items, net of effect of acquisitions :				
(Increase) decrease in accounts receivable	(2,188)	480	(1,657)	(362)
Increase (decrease) in accounts payable	(1,779)	(578)	(975)	209
Increase (decrease) in interest payable	23	(15)	23	(15)
(Increase) decrease in interest receivable	(1)	9	(1)	9
(Increase) decrease in dividend receivable	–	–	(1,500)	–
Increase (decrease) in taxation payable	(190)	649	(9)	(60)
Increase (decrease) in net GST	101	(1)	89	(64)
Less item classified as investing activity :				
Net (surplus) deficit on sale of fixed assets	(45)	341	(45)	327
Net cash inflow from operating activities	4,629	8,073	2,449	4,778

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 1997 the following financial instruments are denominated in foreign currencies, 44% of accounts payable (trade), 15% of related party receivables and 4% 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	1997 Revenue $000	1996 Revenue $000
Daily Freight (1994) Limited	Subsidiary	Trade & Rent	4,679	3,379
Mainfreight International Limited	Subsidiary	Trade & Rent	535	555
Lep International (1996) Limited	Subsidiary	Trade & Rent	176	–
Combined Haulage Limited	Subsidiary	Trade	22	–
			5,412	3,934

Name of Related Party	Nature of Relationship	Type of Transactions	Costs $000	Costs $000
Daily Freight (1994) Limited	Subsidiary	Trade	762	689
Mainfreight International Limited	Subsidiary	Trade & Rent	109	87
Lep International (1996) Limited	Subsidiary	Trade & Rent	20	–
C Howard-Smith	Director	Legal Fees	193*	80
			1,084	856

* Includes $85,000 one off flotation costs.

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) Limited	Trade	30 Days	392	61
Mainfreight International Limited	Trade	30 Days	66	60
Lep International (1996) Limited	Trade	30 Days	82	–
			540	121

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) Limited	Trade	30 Days	70	28
Mainfreight International Limited	Trade	30 Days	2	1
Lep International (1996) Limited	Trade	30 Days	6	–
			78	29

No related party debts have been written off or forgiven during the period (31 March 1996 nil).

In addition to the above 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	32	32

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

Lep (New Zealand) Limited is the minority shareholder in Lep International (1996) Limited.

17. Comparison with Forecast

The following is a comparison of actual 31 March 1997 results with those forecast included in the prospectus dated 6 May 1996.

	Actual Including Acquisitions $000	*Actual Excluding Acquisitions $000*	*Prospectus Forecast $000*
Operating Revenue	162,872	127,011	137,171
Surplus before taxation	9,794	9,189	8,853
Taxation	(3,489)	(3,226)	(3,173)
Surplus after taxation	6,305	5,963	5,680
Minority Interest	(352)	(203)	(200)
Net Surplus	5,953	5,760	5,480
Fixed Assets	34,732	30,453	29,185
Short Term Deposits	2,080	2,080	3,574
Other Current Assets	25,127	17,603	15,037
Goodwill	2,852	423	520
Total Assets	64,791	50,559	48,316
Term Liabilities	16,140	10,657	10,000
Bank Overdraft	1,320	1,904	–
Other Current Liabilities	23,234	14,366	15,376
Total Liabilities	40,694	26,927	25,376
Shareholders' Equity	23,049	22,856	22,164
Minority Interest	1,048	776	776
Total Equity	24,097	23,632	22,940
Net Cash Flows from Operating Activities	4,629	4,274	7,775
Net Cash Flows from Investing Activities	(8,137)	(5,370)	(5,080)
Net Cash Flows from Financing Activities	1,435	(1,561)	(1,630)
Movement in Net Cash Held	(2,073)	(2,657)	1,065

Comparing the prospectus forecast to the actual result excluding acquisitions :

Operating revenue was down by $10,160,000 (7.4%) due to the unsuccessful retention of the national distribution for a commodity manufacturer, the departure of a large warehousing customer earlier than forecast and an unseasonally wet spring resulted in lower levels in agricultural and building related freight volumes.

Net Surplus was up $280,000 (5.1%) despite reduced revenues through improved margins. These improvements resulted from operating efficiency gains.

Fixed Assets increased by $1,268,000 as a result of increased spend $702,000 (swinglift purchases in Australia); reduced disposals of $280,000 (sale of Palmerston North property not completed) and depreciation down by $286,000.

Other Current Assets increased by $2,566,000 (17.1%) due to disappointing Trade Debtor collections. Other Current Liabilities reduced by $1,010,000 (6.6%) due to timing of payments to Creditors. These variances are reflected in Net Cash Flows from Operating Activities.

Term Liabilities are up $657,000 (6.5%) with finance leases of swinglifts in Australia.

ARTHUR ANDERSEN

Chartered Accountants
& Business Advisors

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To the Members of Mainfreight Limited

We have audited the accompanying financial statements of Mainfreight Limited ('the Company') set out on pages 18 to 20. 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 1997. This information is stated in accordance with the accounting policies set out on pages 21 to 32.

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 1997 and of the results of their operations and cash flows for the year then ended.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on 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 Group as at 31 March 1997 and the results of their operations and cash flows for the year then ended.

Our audit was completed on 2 July 1997 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	$161,000	Current
Neil Graham	$117,000	Current
Carl Howard-Smith*	$25,000	Current
John Fernyhough	$25,000	Current
Richard Prebble	$25,000	Current

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

Employees' Remuneration

The Group paid remuneration including benefits to 14 employees (other than directors) during the year in excess of $100,000 in the following bands :

Remuneration	***Number of Employees***
$100,000 – 110,000	3
$110,000 – 120,000	5
$120,000 – 130,000	2
$150,000 – 160,000	4

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 its constitution.

Directors' Shareholdings at Balance Date

	1997	***1996***
B G Plested :		
– beneficially owned	22,643,567	3,285,689
– held by associated persons	401,700	–
N L Graham :		
– beneficially owned	7,005,223	1,914,311
N L Graham & C G O Howard-Smith :		
– not beneficially owned	470,560	–
D D Rowlands :		
– beneficially owned	35,000	–
TOTAL	30,556,050	5,200,000

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 9 June 1997 as Substantial Security Holders in the Company, and have declared the following relevant interest in voting securities under the Securities Amendment Act 1988 :

B G Plested	22,643,567
N L Graham	7,005,223
AMP Society	3,852,853
TOTAL on issue	59,768,140

Largest Security Holders as at 9 June 1997

B G Plested	22,643,567	37.89%
N L Graham	7,005,223	11.72%
AMP Society	3,852,853	6.45%
BZW New Zealand Nominees Ltd	3,065,829	5.13%
Guardian Assurance Limited	2,400,000	4.02%
National Mutual Life Assurance of Australasia Ltd	2,283,000	3.82%
ANZ Nominees Ltd	2,213,749	3.70%
Premier Nominees Ltd	1,785,776	2.99%
Trustees Executors and Agency Company of New Zealand Ltd	1,328,301	2.22%
Colonial Mutual Life Assurance Society Ltd	960,100	1.61%
National Nominees New Zealand Ltd	810,000	1.36%
Newburg Nominees Ltd	774,400	1.30%
Superannuation Investment Ltd	630,000	1.05%
Accident Rehabilitation & Compensation Insurance Corporation	600,000	1.00%
Sun Alliance Life Ltd	480,900	0.80%
Mainfreight Team Share Purchase Trust	470,560	0.79%
Portfolio Custodian Ltd	459,250	0.77%
Athene Nominees Ltd	400,000	0.67%
The NZ Guardian Trust Co Ltd	343,500	0.57%
J M Plested	188,200	0.31%

Spread of Security Holders as at 9 June 1997

Size of Shareholding		*Number of Holders*	*%*	*Total Number Held*	*%*
1	999	44	3.76%	21,270	0.04%
1,000	4,999	707	60.43%	1,343,950	2.25%
5,000	9,999	213	18.21%	1,274,440	2.13%
10,000	49,999	178	15.21%	2,862,500	4.79%
50,000	99,999	9	0.77%	557,209	0.93%
100,000	999,999	10	0.85%	7,130,473	11.93%
1,000,000	PLUS	9	0.77%	46,578,298	77.93%
TOTAL		1,170	100.00%	59,768,140	100.00%

Interests Register

Name of Director or other Person having Interest	***Details of Interest***	***Date Interest Disclosed***
Carl Howard-Smith	Appointed trustee of Employee Share Option Purchase Scheme known as the Mainfreight Team Share Purchase Trust. Renumerated at $20,000 plus GST payable on 1 October 1996. To bear overall administration of the Trust.	23 April 1996 (by minute)
Neil Graham	Appointed trustee of Employee Share Option Purchase Scheme known as the Mainfreight Team Share Purchase Trust. Renumerated at $5,000 plus GST payable on 1 October 1996.	23 April 1996 (by minute)
Carl Howard-Smith	Carl Howard-Smith is entitled to remuneration from Mainfreight by way of solicitor's fees for legal services rendered by him or his legal firm to Mainfreight.	3 May 1996 (Prospectus)
All Directors	In addition to the payment of director's fees, Mainfreight's constitution permits the payment of special remuneration to any Director rendering any special service for the purposes of, or in the interests of Mainfreight or for undertaking any work not in his or her capacity as a Director or work additional to that normally required of directors of a company similar to the Company. Mainfreight's constitution also permits the payment of travelling, hotel and other expenses incurred by Directors in and about the business of Mainfreight (including the expenses of travelling to and from board or committee meetings).	3 May 1996 (Prospectus)
	Mainfreight's constitution permits the payment of a lump sum or pension to a Director, or his or her dependents, on retirement or cessation of his or her office as a Director. The total amount of the payment (or the base for the pension) must not exceed the total remuneration of the Director in his or her capacity as a Director in any three years chosen by Mainfreight. Any amounts paid or payable by Mainfreight in this regard are to be in addition to amounts paid or payable to any such Director under any superannuation scheme established by Mainfreight or any of its subsidiaries.	
	A Deed of Indemnity under which Mainfreight has given indemnities to its directors to the extent permitted by the Companies Act 1993. Liability Insurance has been taken out to cover Directors and Officers liability. Company: HIH Casualty & General. Policy Number: MF470 SR-10518 C10018 MHC. Premium: $32,550 (423 days coverage) Amount of Cover: $15,000,000. Expiration Date: 30 June 1997 Excess: $10,000.	3 May 1996

Neil Graham	Sale of 14,824,395 ordinary shares for $14,231,419.2 ($0.96 per share) pursuant to Prospectus dated 6 May 1996.	27 June 1996
Bruce Plested	Sale of 14,824,395 ordinary shares for $14,231,419.2 ($0.96 per share) pursuant to Prospectus dated 6 May 1996.	27 June 1996
Bruce Plested	Grant of 2,000,000 options to other Mainfreight Directors to acquire ordinary shares at an exercise price of $1.20 per share exercisable between 30 June 1999 and 30 June 2001 for nil consideration.	27 June 1996
Don Rowlands	Acquisition of options to acquire 500,000 shares from Bruce Plested at an exercise price of $1.20 per share exercisable between 30 June 1999 and 30 June 2001 for nil consideration.	27 June 1996
Richard Prebble	Acquisition of options to acquire 500,000 shares from Bruce Plested at an exercise price of $1.20 per share exercisable between 30 June 1999 and 30 June 2001 for nil consideration.	27 June 1996
John Fernyhough	Acquisition of options to acquire 500,000 shares from Bruce Plested at an exercise price of $1.20 per share exercisable between 30 June 1999 and 30 June 2001 for nil consideration.	27 June 1996
Carl Howard-Smith	Acquisition of options to acquire 500,000 shares from Bruce Plested at an exercise price of $1.20 per share exercisable between 30 June 1999 and 30 June 2001 for nil consideration.	27 June 1996
Don Rowlands	Acquired 30,000 shares on 12 June 1996 @ $0.96 and 5,000 shares on 1 July 1996 @ $0.98.	1 July 1996

Statistics

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

	Notes	1997 ($000's)	1996 ($000's)	1995 ($000's)	1994 ($000's)	1993 ($000's)
Net Sales		162,872	130,842	130,527	76,627	71,085
Surplus before Abnormals,Interest & Tax		11,584	8,997	7,361	4,948	5,584
Abnormals	1	525	122	1,196	402	0
EBIT	2	11,059	8,875	6,165	4,546	5,584
Net Interest Cost		1,073	1,085	888	96	154
Net Surplus (NPAT)	3	5,953	4,769	3,315	2,646	3,431
Cashflow	4	8,871	7,326	5,699	3,852	4,778
Net Tangible Assets	5	20,197	19,750	16,215	14,900	13,254
Net Debt	6	16,222	7,236	7,405	11,454	1,210
Total Assets		64,791	45,105	41,079	35,905	23,134
EBIT Margin (before Abnormals) (%)		7.0	6.9	5.6	6.5	7.9
Equity Ratio (%)	7	31.2	43.8	39.5	41.5	57.3
Return on NTA (%)	8	29.5	24.1	20.4	17.8	25.9
Net Interest Cover (x)	9	10.80	8.29	8.29	51.54	36.26
Earnings per Share (cps)		9.96	7.98	5.55	4.43	5.74
Adjusted Earnings per Share (cps)	10,11	10.84	8.18	7.55	5.10	5.74
Cashflow per Share (cps)	10	14.84	12.26	9.54	6.44	7.99
NTA per Share (cps)	10	33.79	33.04	27.13	24.93	22.18

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 1 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 50% of the Net Tangible Assets of Mainfreight International (which is an in-substance subsidiary) and 75% of Lep International (1996) Limited.
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 59.769 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 shareholder of Mainfreight Limited Hereby appoint*

Full Name of Proxy ______________________________

Address ______________________________

or Failing him/her ______________________________

of ______________________________

fold

as my proxy for me/us on my/our behalf at the Annual Meeting of Mainfreight Limited to be held on Thursday 31 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 Mr D D Rowlands as a Director.		
b) To re-elect Mr C G O Howard-Smith as a Director.		
3. To Authorise the Directors to fix the remuneration of the Auditors.		

Signed this ____________ day of ____________ 1997

Usual Signatures(s) ____________ Number of Shares held ____________

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

A shareholder 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 shareholder 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 officer 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".

No postage stamp required if
posted in New Zealand

tape here

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

The Registrar
Mainfreight Ltd
C/ Registry Managers (New Zealand) 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

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

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

Registry Managers (New Zealand) 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 Printing Consultants Limited
2 Enfield Street, Mt Eden
Auckland

The local fleet.


Educating and entertaining fellow commuters!

MAINFREIGHT