

**Deloitte &
Touche**

Deloitte Touche
Tahmatsu



Company Registration No. 2561614

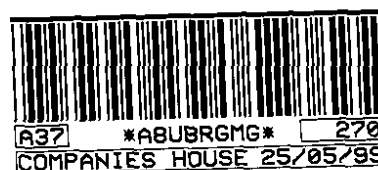
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**mitsui BUSSAN COMMODITIES
LIMITED**

Report and Financial Statements

31 December 1998

**Deloitte & Touche
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR**



27-5-99 283



REPORT AND FINANCIAL STATEMENTS 1998

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REPORT AND FINANCIAL STATEMENTS 1998

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H Nakamura
S Underhill (Co-Managing Director)
H Senga (Managing Director)
H Uno
Y Morishita
M Ikeda
M Roffey
K Tasaka
T Ohyama

SECRETARY

I Patrick

REGISTERED OFFICE

Wren House
15-23 Carter Lane
London
EC4V 5HH

BANKERS

The Sakura Bank Limited
Barclays Bank PLC
Fuji Bank Limited
Bank of Tokyo-Mitsubishi Limited
Chase Manhattan Bank

SOLICITORS

Clifford Chance
200 Aldersgate Street
London
EC1A 4JJ

AUDITORS

Deloitte & Touche
Chartered Accountants
Stonecutter Court
1 Stonecutter Street
London EC4A 4TR

**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

ACTIVITIES

The company is engaged in metal trading on The London Metal Exchange and the trading of related OTC instruments. The US dollar is used as the reporting currency since the company's principal sources of income and expenditure are in this currency.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The results for the current year of trading are set out on page 5. Trading generated a profit before tax of US\$3,472,752 (1997 - US\$6,964,641). The company expects to continue to trade profitably in future years.

DIVIDENDS

The directors have not recommended a dividend for 1998.

YEAR 2000

The directors are continuing to review the impact of year 2000 on the operation of the business. The company has carried out a review of all its hardware, software and other systems, and is in the process of obtaining assurances from its suppliers. The future costs of obtaining compliance are not expected to be significant.

DIRECTORS

The current directors are listed on page 1.

The following directors served during the year:

K Ito	(Japanese)	Resigned 1 November 1998
H Nakamura	(Japanese)	
H Uno	(Japanese)	
S Underhill		
H Senga	(Japanese)	
Y Morishita	(Japanese)	
M Roffey		
M Ikeda	(Japanese)	
K Tasaka	(Japanese)	
T Ohyama	(Japanese)	Appointed 1 November 1998

None of the directors held any interests in the shares of the company during the year.

AUDITORS

A resolution for the reappointment of Deloitte & Touche as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

M Ikeda
Director

29 March 1999

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



AUDITORS' REPORT TO THE MEMBERS OF

mitsui BUSSAN COMMODITIES LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants and Registered Auditors

29 March 1999


PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

	Note	1998 US\$	1997 US\$
TURNOVER	2	13,858,578	17,978,156
Administrative expenses		(11,202,492)	(11,685,620)
OPERATING PROFIT	4	2,656,086	6,292,536
Other interest and similar income		2,212,138	1,744,280
Interest payable and similar charges	5	(1,395,472)	(1,072,175)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		3,472,752	6,964,641
Tax charge on profit on ordinary activities	6	(1,092,222)	(2,070,101)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,380,530	4,894,540
RETAINED PROFIT FOR THE FINANCIAL YEAR TRANSFERRED TO RESERVES	12	2,380,530	4,894,540
Profit and loss account brought forward		368,053	(4,526,487)
Profit and loss account carried forward		2,748,583	368,053

All items of income and expenditure disclosed above are derived from continuing operations. There are no recognised gains or losses for the current financial year and preceding financial year, other than as stated in the profit and loss account.


**BALANCE SHEET
31 December 1998**

	Note	US\$	1998 US\$	US\$	1997 US\$
FIXED ASSETS					
Tangible assets	7		871,419		837,417
Investments			504,370		504,370
			<u>1,375,789</u>		<u>1,341,787</u>
CURRENT ASSETS					
Debtors	8	141,942,039		143,986,484	
Cash at bank and in hand		69,137,754		15,002,190	
		<u>211,079,793</u>		<u>158,988,674</u>	
CREDITORS: amounts falling due within one year					
Bank loans and overdraft		538,614		41	
Trade creditors		120,544,532		65,400,810	
Amounts owed to group companies:					
Parent company and fellow subsidiaries		49,793,551		47,266,616	
Subordinated liabilities	15	10,000,000		10,000,000	
Other creditors including taxation and social security	9	1,207,224		8,424,466	
Accruals and deferred income		2,442,462		153,077	
		<u>184,526,383</u>		<u>131,245,010</u>	
Provisions for liabilities and charges	10	180,716		3,717,398	
		<u>184,706,999</u>		<u>134,962,408</u>	
NET CURRENT ASSETS			<u>26,372,794</u>		<u>24,026,266</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>27,748,583</u>		<u>25,368,053</u>
CAPITAL AND RESERVES					
Called up share capital	11		25,000,000		25,000,000
Profit and loss account			2,748,583		368,053
TOTAL EQUITY SHAREHOLDERS' FUNDS	12		<u>27,748,583</u>		<u>25,368,053</u>

 These financial statements were approved by the Board of Directors on *24 March* 1999.

Signed on behalf of the Board of Directors

M Ikeda

Director


CASH FLOW STATEMENT
Year ended 31 December 1998

	Note	1998 US\$	1997 US\$
Net cash inflow/(outflow) from operating activities	1	55,051,554	(16,854,418)
Returns on investments and servicing of finance			
Interest received		2,103,184	1,744,280
Interest paid		(1,395,472)	(1,072,175)
Net cash inflow from returns on investments and servicing of finance		707,712	672,105
Taxation			
UK corporation tax (paid)/recovered		(1,792,328)	3,132,469
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(371,614)	(356,660)
Disposal of tangible fixed assets		1,667	-
Net cash outflow from capital expenditure and financial investment activities		(369,947)	(356,660)
Net cash inflow/(outflow) before financing		53,596,991	(13,406,504)
Increase/(decrease) in cash	2	53,596,991	(13,406,504)


NOTES TO THE CASH FLOW STATEMENT
Year ended 31 December 1998
1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	1998 US\$	1997 US\$
Operating profit	2,656,086	6,292,536
Depreciation	335,653	379,316
Decrease/(Increase) in debtors	2,117,970	(54,740,726)
Increase in creditors	49,941,553	31,218,141
Loss on sale of fixed assets	292	-
Difference on foreign exchange	-	(3,685)
Net cash in/(out)flow from operating activities	<u>55,051,554</u>	<u>(16,854,418)</u>

2. CHANGES IN NET FUNDS AND RECONCILIATION OF NET CASH FLOWS TO MOVEMENT IN NET DEBT

	At 31/12/1998 US\$	Cash flows US\$	At 31/12/1997 US\$
Cash at bank and in hand	69,137,754	54,135,564	15,002,190
Bank overdraft	(538,614)	(538,573)	(41)
	<u>68,599,140</u>	<u>53,596,991</u>	<u>15,002,149</u>
Debt due within one year	(10,000,000)	-	(10,000,000)
Total net funds	<u>58,599,140</u>	<u>53,596,991</u>	<u>5,002,149</u>

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the valuation of trading positions.

Turnover

Turnover comprises:

- (i) profits on dealing operations, being gains less losses on options and futures dealing and currency hedging;
- (ii) gross commission from investment business, less commissions paid away.

Tangible fixed assets

Depreciation is provided on the cost or revalued amount on the following bases:

Leasehold improvements	Over the term of the lease
Office equipment	Straight line method over 4 years
Motor vehicles	25% Reducing balance method

During the year the method of depreciation of motor vehicles was changed from 25% straight line to the above method. The effect in 1998 has been to increase profit before tax by \$30,174. No prior year adjustment has been made. If a prior year adjustment had been made the effect would have been to increase profit before tax in 1997 by \$7,499.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

Foreign exchange

Transactions denominated in other currencies are translated into US dollars at the rates of exchange ruling at the dates of the transactions. Fixed assets are translated at the rates ruling on acquisition, other assets and liabilities stated in foreign currencies are translated into US dollars at the rates ruling at the year end. Exchange profits and losses are dealt with in the profit and loss account.

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the periods of the leases.

Valuation of positions

Positions held for trading purposes in options, futures and forwards are accounted for on a trade date basis and valued at market value. Market values are derived, as appropriate, from externally quoted prices and other market data and internal valuation models. Unrealised profits and losses on open forward contracts are discounted. Stocks held as trading positions are valued at net realisable value.

The client positions reflected in trade debtor and creditor accounts are also stated at market values.

Pension costs

The company contributes towards a money purchase pension scheme. Costs are charged against profits in the period in which they become payable.


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
2. TURNOVER

	1998 US\$	1997 US\$
Dealing profits, net commissions receivable, and amounts payable on metal lease agreements	13,858,578	17,978,156

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	1998 US\$	1997 US\$
Aggregate of directors' emoluments	1,553,645	1,762,903
Contributions to money purchase pension schemes	72,964	69,273
	1,626,609	1,832,176
Emoluments of the highest paid director	817,519	1,023,149
Contributions to money purchase pension schemes	29,704	72,257
	847,223	1,095,406
	No.	No.
Number of directors for whom the company made contributions to money purchase pension schemes	2	2
Employee costs during the year:	US\$	US\$
Wages and salaries	5,622,478	5,546,879
Social security costs	226,911	313,627
Other pension costs	647,125	452,905
	6,496,514	6,313,411
	1998 No.	1997 No.
Average number of persons employed:		
Trading	15	14
Administration	16	14
	31	28


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
4. OPERATING PROFIT

	1998	1997
	US\$	US\$
Operating profit is after charging:		
Rentals under operating leases	203,830	227,120
Depreciation and other amounts written off tangible fixed assets	335,653	379,316
Auditors' remuneration - audit services	66,305	96,973
Foreign exchange losses	3,546	130,885
	<u> </u>	<u> </u>

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998	1997
	US\$	US\$
Bank loans and overdrafts payable within five years	3,691	12,146
Other loans - group undertakings	646,032	645,264
- other	745,749	414,765
	<u> </u>	<u> </u>
	<u>1,395,472</u>	<u>1,072,175</u>

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	1998	1997
	US\$	US\$
United Kingdom corporation tax at 31% (1997: 31%) based on the profit for the year	1,090,749	1,800,000
Adjustment in respect of prior periods	1,473	270,101
	<u> </u>	<u> </u>
	<u>1,092,222</u>	<u>2,070,101</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
7. TANGIBLE FIXED ASSETS

	Total US\$	Leasehold improve- ments US\$	Office equipment US\$	Motor vehicles US\$
Cost				
At 1 January 1998	2,407,692	314,039	1,930,375	163,278
Additions	371,614	21,574	350,040	-
Disposals	(1,959)	-	(1,959)	-
At 31 December 1998	<u>2,777,347</u>	<u>335,613</u>	<u>2,278,456</u>	<u>163,278</u>
Accumulated depreciation				
At 1 January 1998	1,570,275	34,022	1,463,884	72,369
Charge for the year	335,653	33,801	291,207	10,645
Disposals during the year	-	-	-	-
At 31 December 1998	<u>1,905,928</u>	<u>67,823</u>	<u>1,755,091</u>	<u>83,014</u>
Net book value				
At 31 December 1998	<u>871,419</u>	<u>267,790</u>	<u>523,365</u>	<u>80,264</u>
At 31 December 1997	<u>837,417</u>	<u>280,017</u>	<u>466,491</u>	<u>90,909</u>

8. DEBTORS

	1998 US\$	1997 US\$
Trade debtors	77,029,866	89,823,570
London Clearing House deposit	1,300,849	28,061,682
Amounts owed by group companies:		
Parent company and fellow subsidiaries	62,281,697	25,767,130
Other debtors	55,743	56,094
Tax/ACT recoverable	125,555	198,692
Prepayments and accrued income	1,148,329	79,316
	<u>141,942,039</u>	<u>143,986,484</u>

9. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1998 US\$	1997 US\$
This heading includes:		
UK corporation tax	<u>1,064,465</u>	<u>1,800,000</u>


NOTES TO THE ACCOUNTS
Year ended 31 December 1998
10. PROVISIONS FOR LIABILITIES AND CHARGES

The amounts of deferred taxation provided and unprovided in the accounts are:

	1998 US\$	Provided 1997 US\$	1998 US\$	Unprovided 1997 US\$
Depreciation in excess of capital allowances	-	-	(16,939)	29,213
Other short term timing differences	-	-	-	5,074
	-	-	(16,939)	34,287
				1998 US\$
Other provisions:				
Balance at 31 December 1997				3,717,398
Amount transferred from provisions				(3,536,782)
At 31 December 1998				180,616

11. CALLED UP SHARE CAPITAL

	1998 US\$	1997 US\$
Authorised, allotted and fully paid: 25,000 ordinary shares of US\$1,000 each	25,000,000	25,000,000

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 US\$	1997 US\$
Profit for the financial year	2,380,530	4,894,540
Opening shareholders' funds	25,368,053	20,473,513
Closing shareholders' funds	27,748,583	25,368,053



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

13. OPERATING LEASE COMMITMENTS

At 31 December 1998 the company was committed to making the following payments during the next year in respect of operating leases:

	Office Equipment		Land and buildings	
	US\$	US\$	US\$	US\$
	1998	1997	1998	1997
Leases which expire:				
Over five years	<u>920</u>	<u>908</u>	<u>202,910</u>	<u>200,348</u>

14. ULTIMATE PARENT COMPANY

In the opinion of the directors, the ultimate parent company of Mitsui Bussan Commodities Limited, is Mitsui & Co., Ltd which is incorporated in Japan. A copy of the consolidated financial statements of the ultimate parent company can be obtained from that company's registered office 2-1 Ohtemachi 1-Chome, Chiyoda-ku, Tokyo 100, Japan. The parent company of both the largest and smallest groups of which the company is a part is Mitsui & Co., Ltd.

As a wholly owned subsidiary of a company whose accounts are publicly available, the company is exempt from the disclosure requirements of FRS8 relating to other group companies.

15. SUBORDINATED LIABILITIES

The subordinated debt has been borrowed from Mitsui & Co. UK PLC. Interest is payable at 0.25% above the London Inter-Bank Offer Rate for US dollars of the Bank of Tokyo-Mitsubishi Limited. The only event of default in relation to the subordinated debt is the non-payment of principal or interest. The only remedy available to the holders of the subordinated debt in the event of default is to petition for the winding up of the Company after giving seven Business Days' prior written notice to SFA of its intention to do so. The repayment date of the subordinated debt is 30 September 1999.