COMBINED MOTOR HOLDINGS LIMITED FINANCIAL RESULTS

FOR THE YEAR ENDED 29 FEBRUARY 2016

GROUP STATEMENT OF FINANCIAL POSITION as at 29 February 2016

	2016 R'000	2015 R'000
ASSETS		
Non-current assets		
Plant and equipment	71 715	74 846
Goodwill	27 078	44 972
Insurance receivable	30 032	20 418
Deferred taxation	39 934	51 224
	168 759	191 460
Current assets		
Car hire fleet vehicles	643 882	609 811
Inventories	1 118 004	1 175 207
Trade and other receivables	266 680	266 293
Taxation paid in advance	2 590	–
Cash and cash equivalents	498 254	450 544
	2 529 410	2 501 855
Assets of disposal group held for sale	85 300	–
Total assets	2 783 469	2 693 315
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	38 091	27 794
Share-based payment reserve	5 987	12 011
Retained earnings	436 013	600 543
Ordinary shareholders' equity	480 091	640 348
Non-controlling interest	722	275
Total equity	480 813	640 623
Non-current liabilities		
Insurance payable	–	1 680
Lease liabilities	44 745	74 298
Provisions	–	4 231
	44 745	80 209
Current liabilities		
Advance from non-controlling shareholder of subsidiary	255	255
Trade and other payables	1 521 268	1 279 367
Borrowings	726 137	667 561
Lease liabilities	6 413	15 232
Current tax liabilities	3 838	10 068
	2 257 911	1 972 483
Total liabilities	2 302 656	2 052 692
Total equity and liabilities	2 783 469	2 693 315

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 29 February 2016

	2016 R'000	Restated 2015 R'000
Continuing operations		
Revenue	**11 016 150**	10 737 862
Cost of sales	**(9 275 592)**	(8 986 601)
Gross profit	**1 740 558**	1 751 261
Other income	**28 064**	14 764
Impairment of goodwill	**(22 000)**	(30 000)
Selling and administration expenses	**(1 373 717)**	(1 409 867)
Operating profit	**372 905**	326 158
Finance income	**14 906**	14 821
Finance costs	**(117 644)**	(103 355)
Profit before taxation	**270 167**	237 624
Tax expense	**(87 218)**	(77 074)
Profit for the year from continuing operations	**182 949**	160 550
Discontinued operation		
Loss for the year from discontinued operation (attributable to equity holders of the company)	**–**	(8 000)
Total profit and comprehensive income	**182 949**	152 550
Attributable to:		
Equity holders of the company	**182 502**	152 387
Non-controlling interest	**447**	163
	182 949	152 550
Reconciliation of headline earnings		
Profits/(losses) for the year attributable to equity holders of the company		
– from continuing operations	**182 502**	160 387
– from discontinued operation	**–**	(8 000)
Total profit and comprehensive income attributable to equity holders of the company	**182 502**	152 387
Non-trading items:		
– impairment of goodwill	**22 000**	30 000
– profit on sale of plant and equipment		
– gross	**(3 395)**	(93)
– impact of income tax	**951**	26
Headline earnings attributable to equity holders of the company	**202 058**	182 320
From continuing operations	**202 058**	190 320
From discontinued operation	**–**	(8 000)
	202 058	182 320

CMH GROUP

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 29 February 2016 continued

	2016 cents	2015 cents
Total earnings per share		
Basic	**223,5**	162,7
Diluted basic	**223,5**	160,1
Headline	**247,5**	194,6
Diluted headline	**247,5**	191,6
Earnings per share from continuing operations		
Basic	**223,5**	171,2
Diluted basic	**223,5**	168,5
Headline	**247,5**	203,1
Diluted headline	**247,5**	200,0
Earnings per share from discontinued operation		
Basic	**–**	(8,5)
Diluted basic	**–**	(8,4)
Headline	**–**	(8,5)
Diluted headline	**–**	(8,4)

GROUP STATEMENT OF CHANGES IN EQUITY for the year ended 29 February 2016

	Share capital R'000	Share-based payment reserve R'000	Retained earnings R'000	Attributable to equity holders of the company R'000	Non-controlling interest R'000	Total equity R'000
Balance at 28 February 2014	27 794	14 441	523 379	565 614	112	565 726
Total profit and comprehensive income			152 387	152 387	163	152 550
Release following exercise of share appreciation rights		(5 471)		(5 471)		(5 471)
Gain on share appreciation rights exercised			2 058	2 058		2 058
Share-based payment reserve		3 041		3 041		3 041
Dividends paid			(77 281)	(77 281)		(77 281)
Balance at 28 February 2015	**27 794**	**12 011**	**600 543**	**640 348**	**275**	**640 623**
Issue of shares	**11 579**			**11 579**		**11 579**
Shares repurchased	**(4 607)**		**(247 036)**	**(251 643)**		**(251 643)**
Transfer to share capital	**3 325**	**(3 325)**				
Total profit and comprehensive income			**182 502**	**182 502**	**447**	**182 949**
Release following exercise of share appreciation rights		**(5 655)**	**5 655**			
Cost of shares delivered in terms of share appreciation rights scheme			**(8 511)**	**(8 511)**		**(8 511)**
Share-based payment reserve		**2 956**		**2 956**		**2 956**
Dividends paid			**(97 140)**	**(97 140)**		**(97 140)**
Balance at 29 February 2016	**38 091**	**5 987**	**436 013**	**480 091**	**722**	**480 813**

GROUP STATEMENT OF CASH FLOWS for the year ended 29 February 2016

	2016 R'000	2015 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit		
From continuing operations	372 905	326 158
From discontinued operation	–	(7 906)
	372 905	318 252
Adjustments for non-cash items:		
– depreciation/other	94 192	138 365
Sale of car hire fleet vehicles	341 606	324 772
Purchase of car hire fleet vehicles	(461 388)	(443 107)
	347 315	338 282
Working capital changes:		
Inventories	(48 024)	39 370
Trade and other receivables	(387)	(2 462)
Trade and other payables	238 642	20 084
Borrowings	58 576	44 599
Cash generated from operations	596 122	439 873
Taxation paid	(84 748)	(93 643)
Net cash movement from operating activities	511 374	346 230
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of non-current plant and equipment	(37 007)	(32 858)
Proceeds on disposal of non-current plant and equipment	7 422	4 807
Proceeds on disposal of businesses	31 205	–
Purchase of businesses	(5 537)	–
Insurance receivable	(9 614)	(2 379)
Insurance payable	(1 680)	(476)
Net cash movement from investing activities	(15 211)	(30 906)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-controlling shareholders of subsidiaries	–	(3 938)
Proceeds of issue of shares	11 579	–
Repurchase of shares	(251 643)	–
Cost of shares delivered in terms of share appreciation rights scheme	(8 511)	(3 413)
Finance income received	14 906	14 971
Finance costs paid	(117 644)	(103 599)
Dividends paid	(97 140)	(77 281)
Net cash movement from financing activities	(448 453)	(173 260)
Net movement in cash and cash equivalents	47 710	142 064
Cash and cash equivalents at beginning of year	450 544	308 480
Cash and cash equivalents at end of year	498 254	450 544

GROUP SEGMENT INFORMATION for the year ended 29 February 2016

	TOTAL		RETAIL MOTOR		CAR HIRE		MARINE AND LEISURE*		FINANCIAL SERVICES		CORPORATE SERVICES/OTHER	
	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%	R'000	%
2016												
Segment revenue	11 086 217	100	10 493 058	94	422 932	4	37 500	–	67 027	1	65 700	1
Inter-segment revenue	(32 567)	100	–	–	–	–	–	–	–	–	(32 567)	100
External revenue	11 053 650	100	10 493 058	95	422 932	4	37 500	–	67 027	1	33 133	–
Operating profit	372 905	100	253 513	68	90 973	24	–	–	34 554	9	(6 135)	(1)
Net finance costs	(102 738)	100	(75 543)	74	(41 469)	40	–	–	3 150	(3)	11 124	(11)
Profit before taxation	270 167	100	177 970	66	49 504	18	–	–	37 704	14	4 989	2
After charging												
– employee costs	755 998	100	638 379	84	68 307	9	–	–	–	–	49 312	7
– depreciation charge	112 603	100	21 932	19	88 786	79	–	–	–	–	1 885	2
– impairment of goodwill	22 000	100	22 000	100	–	–	–	–	–	–	–	–
Total assets	2 783 469	100	1 502 239	54	724 231	26	1 933	–	30 032	1	525 034	19
Total liabilities	2 302 656	100	1 446 173	63	803 642	35	964	–	–	–	51 877	2
Goodwill at year-end	27 078	100	27 078	100	–	–	–	–	–	–	–	–
2015												
Segment revenue	10 855 688	100	10 282 716	95	368 493	3	94 721	1	60 268	1	49 490	–
Inter-segment revenue	(23 105)	100	–	–	–	–	–	–	–	–	(23 105)	100
External revenue	10 832 583	100	10 282 716	95	368 493	3	94 721	1	60 268	1	26 385	–
Operating profit	318 252	100	225 498	70	77 889	24	(7 906)	(2)	33 683	11	(10 912)	(3)
Net finance costs	(88 628)	100	(68 074)	77	(40 413)	46	(94)	–	2 297	(3)	17 656	(20)
Profit before taxation	229 624	100	157 424	68	37 476	16	(8 000)	(3)	35 980	16	6 744	3
After charging:												
– employee costs	754 356	100	627 590	83	71 468	10	9 462	1	–	–	45 836	6
– depreciation charge	109 390	100	23 294	21	84 107	77	417	–	–	–	1 572	2
– impairment of goodwill	30 000	100	30 000	100	–	–	–	–	–	–	–	–
Total assets	2 693 315	100	1 489 272	55	673 268	25	34 587	1	20 419	1	475 769	18
Total liabilities	2 052 692	100	1 283 403	63	725 351	35	14 198	1	1 680	–	28 060	1
Goodwill at year-end	44 972	100	44 972	100	–	–	–	–	–	–	–	–

* *Discontinued.*

EXTRACTS FROM THE REPORT OF THE CHIEF EXECUTIVE OFFICER

I am proud to report on the financial results of CMH Group for the year ended 29 February 2016. I believe that the performance was excellent bearing in mind the challenging trading and economic conditions the Group faced during the year under review. Despite a 5,2% decline in national new vehicle sales, the Group recorded a 27% increase in headline earnings per share. The Group learnt harsh lessons during the global and local recession of 2009: most importantly, the need to manage costs and cash flow in a shrinking market. Applying these principles has enabled modest growth in both the new and used car sectors. This growth, together with improved operating margins, has propelled the Group to a return on shareholders' funds of 32,6%. The recommended dividend of 85 cents per share is 30,8% above that paid last year.

FINANCIAL OVERVIEW

Despite a revenue loss of some R360 million, following the closure of two large dealerships during the year, the Group recorded an increase of 2,6% in total revenue. This was principally due to an increase in vehicle sales volumes. The gross margin declined from 16,3% to 15,8% as a result of pricing pressure, but this was offset by a 2,6% reduction in selling and administration expenses. The result was that operating profit, before goodwill impairment, increased 10,9%, to R395 million. The goodwill impairment charge of R22 million related to the closed dealerships. After eliminating the goodwill impairment, the operating margin improved from 3,3% to 3,6%.

During the year the Group effected a repurchase of 21,1 million shares at a price of R11,83 per share. The total outlay of R251 million was expended from existing cash resources. Despite this cash outflow, an additional R34 million invested in the car hire fleet, and R96 million in new vehicle inventory, the net finance cost increased only 15,9%. The tax rate remained constant, and the net result was a 19,9% improvement in total profit and comprehensive income.

Headline earnings increased 10,8% to R202 million. Adjusting for the lower average number of shares in issue, this translates into a 27,2% improvement in headline earnings per share. The proposed dividend of 85 cents per share, coupled with the 46,5 cents paid in December 2015, reflects an increase of 34,9% over the comparative period.

Within the statement of financial position, the only noteworthy movements were the increase in the car hire fleet, to cater for its higher sales, and a temporary increase in new vehicle inventory, ahead of expected price increases. The decrease in total equity has resulted from the share repurchase. Borrowings have increased in line with the car hire fleet.

Despite the investment of R251 million on the share repurchase, and the payment of R97 million in dividends, the Group ended the year with cash resources of R498 million, up R48 million on the previous year.

OPERATIONAL OVERVIEW

Vehicle sales are affected by a number of factors, which include consumers' disposable incomes, interest rates, currency strength and fuel prices. A measure which includes all these factors is GDP growth. Research over many years has shown a close correlation between national vehicle sales and GDP. During calendar 2015, South Africa recorded a fall in GDP growth to 1,4%, and vehicle sales declined 5%. Whilst interest rates remained stable for most of the year, the depreciation in the rand forced manufacturers to hike prices by an average 6,5%.

Increases in the price of basic essentials such as electricity, water and fuel, exacerbated by the severe ongoing drought, saw sales volumes taper off during the last quarter of calendar 2015, and the downward trend has continued in early 2016.

The Group's management style remained unchanged: decentralised operating and marketing control, complemented by centralised cash flow processes, accounting standards and internal audit. Remuneration remains linked to performance benchmarks all of which are closely monitored using internally-generated measurements and externally-sourced peer group comparisons. Internet and electronic marketing, and staff training remain areas of focus.

The Group as a whole has retained its status as a level 4 contributor, whilst the car hire division, measured separately, is a level 2 contributor. These ratings have been completed under the old scorecard methodology and the new scorecard will adversely affect the Group's future ratings. Continued effort will be made to ensure that the car hire and fleet services divisions, which are more dependent on B-BBEE ratings, are kept in line with competitors. A big challenge in this regard is that the motor manufacturers, from which these divisions source the vast majority of their purchases, do not have favourable ratings, and this adversely affects the Group's score.

Motor Retail

Despite the weakening economy and the 5,2% decline in national new vehicle sales, the Group recorded flat unit sales levels in total, but a 5,1% increase if the discontinued dealerships are discounted. In the used car market, unit sales were up 7,1% in total, and 12,3% in respect of continuing operations. Five sub-performing dealerships, and the Group's vehicle salvage business, Bonerts, were closed or sold during the year. Included in these was one BMW/Mini outlet in Lyndhurst which was closed at considerable expense because of its size, particularly in terms of staff and long term leases. I am pleased that the Group was able to relocate the majority of staff, with fewer than 10% having to be retrenched. All the costs of closure have been absorbed in the year under review.

On the positive side, the 10 new dealerships which were opened last year have all proved profitable and made bottom line contributions. An additional Nissan and Renault dealership in Ballito was acquired midyear and is expected to produce profit in the year ahead. Two additional Mazda and Mitsubishi outlets were opened alongside existing operations, and their contribution to overheads will be beneficial. The pragmatic approach by various smaller manufacturers, which permits the combination of "front-end" sales areas with shared "back-end" service and parts departments, is beneficial to both them and the dealerships. The Datcentre Nissan/Datsun branch in Durban recently moved from temporary premises into its new purpose-built facility which offers a 50% increase in trading area. This dealership is a flagship operation for both the Group and Nissan/Datsun.

The continuing decline in the rand has forced the Group to discontinue the importation and sales of the Chinese-manufactured MG and Maxus vehicle ranges. The inventory of these vehicles has been sold, but the Group will continue to offer facilities to support customers and the brand in terms of parts supply, warranty and service backup.

The Group's workshops and parts departments, which are the backbone of the dealerships' profitability, continued to produce steady, pleasing results. Extended warranty periods offered by manufacturers, which are underpinned by regular service requirements, do assist dealerships to retain customers for longer periods.

Car Hire

First Car Rental's continued excellent performance was made possible by a 9,7% increase in hire days, improved fleet utilisation, and control over fleet and overhead costs. Revenue increased 14,8%, and operating profit rose 16,8% to R91 million. Within the declining general economy, the tourism sector, driven by the weakening rand, has shown growth, and First Car Rental has enjoyed its share of this windfall.

The recently-launched venture into the longer-term truck and van hire market has recorded slow, but steady, progress. This operation shares facilities and staff with the short-term division, so the majority of gross profit becomes operating profit.

The division has made increasing use of web marketing and web-based bookings. Not only does this save commission expenses, but flexible pricing parameters enable improved utilisation during off-peak periods.

Historically, approximately 30% of the retired fleet has been sold through Group used car outlets. With the expected scarcity of quality used vehicle inventory during the year ahead, it is planned to increase this level to around 75%. This will benefit both the car hire and retail motor divisions.

Financial Services

This division delivered a steady 4,8% increase in profit before taxation, off revenue which grew 11,2%. The insurance and warranty cells, which provide life, disability, retrenchment, and vehicle warranty cover, delivered a pleasing 43,5% increase. Premium income increased 11,2% and, being of a medium-term nature, this augurs well for the years ahead, even if the number of new policies sold declines in the short-term. The finance joint ventures were impacted by deteriorating debtors' ageing, and prudent accounting required higher levels of doubtful debt provisioning. This is an area of concern and credit-granting criteria will remain a focal point during what is expected to be a difficult year ahead for consumers.

Marine and Leisure

The Board's decision last year to discontinue this division was prompted by substandard returns. The Group's investment of R34,0 million in inventory and receivables at the end of last year has been reduced to receivables of R1,9 million, which are due for repayment in June 2016.

SHARE REPURCHASE OFFER

Following shareholder approval in May last year, the Group effected the repurchase of 21,1 million shares at R11,83 per share. The offer to shareholders to voluntarily submit shares for repurchase was fully subscribed following the tender by the Zimmerman family of its total shareholding of 28,4 million shares. The repurchase and related costs, amounting to R251,6 million, was financed from the Group's existing cash resources.

PROSPECTS

The year ahead is expected to be extremely challenging, and dominated by higher interest rates, a further rise in unemployment levels, and political uncertainty. The political spectrum has been rocked in recent months by allegations of indecisive leadership, infighting, and undue influence by members of the private sector, all of which have a negative influence on business sentiment. Social tension, driven by perceived inequalities, is high. The likely downward adjustment in the country's sovereign credit rating, which will mean higher interest rates for the country and consumers, will only be averted by tangible signs of fiscal discipline. A positive is that the government has recommitted to the implementation of the National Development Plan, which will encourage investment growth and employment.

Within the motor industry, I believe there will be a number of changes. Motor manufacturers will benefit from the depreciating rand to boost export sales and offset their rapidly rising import costs. However, last year manufacturers overestimated the market size and built more vehicles than needed. As a result, they and the dealer networks offered generous incentives to boost volumes and clear inventory. This helped to shield the market from price increases that should have followed the currency decline. It is unlikely that these special deals will be repeated to the same extent in 2016, and the result will be average price increases of the order of 12-15%, compared with 6,5% in 2015. Price increases, coupled with expected interest rates hike, have led both economists and the National Association of Motor Manufacturers to predict a fall of 9% in national new vehicle sales.

At Group level, the pain of closing sub-performing operations over the past two years will enable strengthened focus on the viable outlets. The closure of the BMW dealerships will reduce the Group's representation in the high value market sector which is expected to decline more sharply than the middle and entry level sectors, where the Group is strongly positioned.

Experience has taught us that new vehicle sales are not the only source of revenue in a motor dealership. As the pricing gap between new and used vehicles grows, so does the demand for quality used vehicles. A focus on this area during the past three months has led to a 20% year-on-year increase in sales volumes. Parts and service levels continue to rise, and the Group has strong follow-up systems to retain customers after their warranties expire and they are no longer tied to the manufacturers' dealer networks.

First Car Rental is well positioned for growth, both in the local business and leisure sectors, and will take advantage of the expected increase in the foreign inbound market. Continued steady improvement is expected from the financial services segment. Together, these segments contribute 32% of the Group's profit before taxation.

The Group has a healthy balance sheet, capable and experienced management team, and is a strong cash generator. The principal manufacturers represented are sound long-term operators in the South African market, and we have a mutually-beneficial relationship with them.

On this basis I believe the Group will emerge favourably from a difficult year.

CHANGES IN DIRECTORATE

There has been no change in directors since the release of the interim results on 21 October 2015.

DIVIDEND DECLARATION

A dividend (dividend number 56) of 85 cents per share will be paid on Monday, 20 June 2016 to members reflected in the share register of the Company at the close of business on the record date, Friday, 17 June 2016. Last day to trade cum dividend is Thursday, 9 June 2016. First day to trade ex dividend is Friday, 10 June 2016. Share certificates may not be dematerialised or rematerialised from Friday, 10 June 2016 to Friday, 17 June 2016, both days inclusive. The number of ordinary shares in issue at the date of the declaration is 74 801 998. Consequently, the gross dividend payable is R63 581 700 and will be distributed from income reserves. The dividend will be subject to dividend withholding tax at a rate of 15%, which will result in a net dividend of 72,25 cents to those shareholders who are not exempt in terms of section 64F of the Income Tax Act.

BASIS OF PREPARATION

The summary consolidated financial statements for the year ended 29 February 2016 have been prepared under the supervision of SK Jackson CA (SA), financial director, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, and the requirements of the South African Companies Act, No 71 of 2008, (the "Act"), applicable to summary financial statements. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied are in terms of IFRS and are consistent with those applied in the preparation of the previous consolidated financial statements. The figures previously presented in respect of the Group 2015 Statement of Comprehensive Income have been restated to separately disclose "Other income" which was previously included in "Selling and administration expenses". The restatement has no impact on operating profit. These results are extracted from audited information, but are not themselves audited. The consolidated financial statements were audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The audited consolidated financial statements and the auditor's report thereon are available for inspection at the Company's registered office.

The directors take full responsibility for the preparation of these results and confirm that the financial information has been correctly extracted from the underlying consolidated financial statements.

CORPORATE GOVERNANCE

The Group is committed to maintaining the high standards of governance as embodied in the King Report on Corporate Governance and, except as recorded in the Integrated Annual Report, complies with the principles of both the Report and the JSE Limited Listings Requirements.

ANNUAL GENERAL MEETING

Details of the annual general meeting are expected to be released on 28 April 2016.

By order of the board of directors

K Fonseca CA (SA)
Company Secretary

19 April 2016

COMBINED MOTOR HOLDINGS LIMITED
("the Company" or "the Group")
Registration number: 1965/000270/06
Income tax reference number: 9471/712/71/2
Share code: CMH
ISIN: ZAE000088050

DIRECTORS

JTM Edwards (chairman)
JD McIntosh (CEO)
LCZ Cele
JS Dixon
SK Jackson
ME Jones
JA Mabena
MR Nkadimeng

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