CMH GROUP

COMBINED MOTOR HOLDINGS LIMITED FINANCIAL RESULTS

FOR THE YEAR ENDED 28 FEBRUARY 2017

GROUP FINANCIAL HIGHLIGHTS
FOR THE FIVE YEARS ENDED 28 FEBRUARY 2017

▲ 19% COMPOUND GROWTH IN HEADLINE EARNINGS PER SHARE

▲ 27% COMPOUND GROWTH IN DIVIDENDS PER SHARE

▲ 80% INCREASE IN RETURN ON SHAREHOLDERS' FUNDS, TO 37,4%

▲ INCREASE IN OPERATING MARGIN, BEFORE GOODWILL IMPAIRMENT, FROM 2,6% TO 3,9%

GROUP FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED 28 FEBRUARY 2017

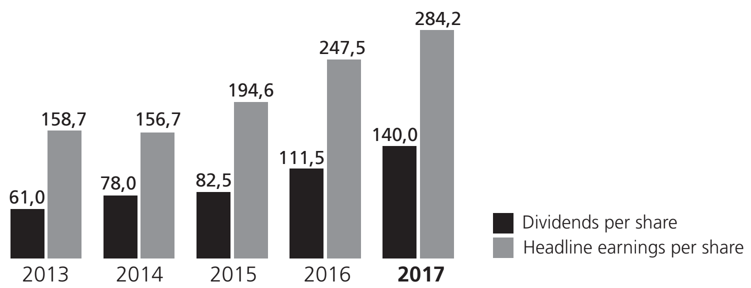
HEADLINE EARNINGS PER SHARE ▲ 15%

BASIC EARNINGS PER SHARE ▲ 18%

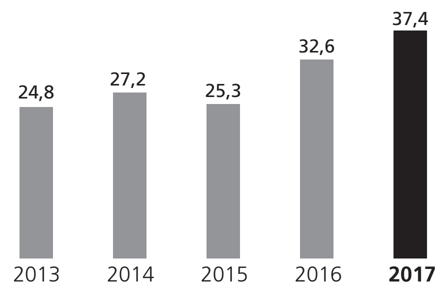
DIVIDENDS PER SHARE ▲ 26%

		28 February 2017	29 February 2016	Change %
Total assets	(R'000)	2 786 806	2 783 469	0,1
Cash resources	(R'000)	489 218	498 254	(1,8)
Net asset value per share	(cents)	767	643	19,3
Revenue	(R'000)	10 224 900	11 016 150	(7,2)
Operating profit before goodwill impairment	(R'000)	396 652	394 905	0,4
Operating profit	(R'000)	379 652	372 905	1,8
Total profit and comprehensive income	(R'000)	197 388	182 949	7,9
Return on shareholders' funds	(%)	37,4	32,6	14,7
Basic earnings per share	(cents)	263,3	223,5	17,8
Headline earnings per share	(cents)	284,2	247,5	14,8
Dividends paid per share	(cents)	140,0	111,5	25,6
Dividend declared – payable June 2017	(cents)	100,0	85,0	17,6

Headline earnings and dividends per share (cents)



Return on shareholders' funds (%)



GROUP STATEMENT OF FINANCIAL POSITION as at 28 February 2017

	2017 R'000	2016 R'000
ASSETS		
Non-current assets		
Plant and equipment	**74 864**	71 715
Car hire fleet vehicles	**757 085**	–
Goodwill	**10 078**	27 078
Insurance receivable	**38 162**	30 032
Deferred taxation	**39 454**	39 934
	919 643	168 759
Current assets		
Car hire fleet vehicles	**–**	643 882
Inventories	**1 118 563**	1 118 004
Trade and other receivables	**254 843**	266 680
Taxation paid in advance	**4 539**	2 590
Cash and cash equivalents	**489 218**	498 254
	1 867 163	2 529 410
Assets of disposal group held for sale	**–**	85 300
Total assets	**2 786 806**	2 783 469
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**38 091**	38 091
Share-based payment reserve	**6 981**	5 987
Retained earnings	**527 358**	436 013
Ordinary shareholders' equity	**572 430**	480 091
Non-controlling interest	**1 127**	722
Total equity	**573 557**	480 813
Non-current liabilities		
Lease liabilities	**44 945**	44 745
Current liabilities		
Advance from non-controlling shareholder of subsidiary	**–**	255
Trade and other payables	**1 322 376**	1 521 268
Borrowings	**841 196**	726 137
Lease liabilities	**1 755**	6 413
Current tax liabilities	**2 977**	3 838
	2 168 304	2 257 911
Total liabilities	**2 213 249**	2 302 656
Total equity and liabilities	**2 786 806**	2 783 469

CMH GROUP

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 28 February 2017

		2017 R'000	2016 R'000
Revenue		**10 224 900**	11 016 150
Cost of sales		**(8 539 618)**	(9 275 592)
Gross profit		**1 685 282**	1 740 558
Other income		**25 905**	28 064
Impairment of goodwill		**(17 000)**	(22 000)
Selling and administration expenses		**(1 314 535)**	(1 373 717)
Operating profit		**379 652**	372 905
Finance income		**21 498**	14 906
Finance costs		**(126 338)**	(117 644)
Profit before taxation		**274 812**	270 167
Tax expense		**(77 424)**	(87 218)
Total profit and comprehensive income		**197 388**	182 949
Attributable to:			
Equity holders of the company		**196 983**	182 502
Non-controlling interest		**405**	447
		197 388	182 949
Reconciliation of headline earnings			
Total profit and comprehensive income attributable to equity holders of the Company		**196 983**	182 502
Non-trading items:			
– impairment of goodwill		**17 000**	22 000
– profit on sale of plant and equipment			
– gross		**(1 954)**	(3 395)
– impact of income tax		**547**	951
Headline earnings attributable to equity holders of the Company		**212 576**	202 058
Earnings per share			
Basic	(cents)	**263,3**	223,5
Diluted basic	(cents)	**261,8**	223,5
Headline	(cents)	**284,2**	247,5
Diluted headline	(cents)	**282,6**	247,5

GROUP STATEMENT OF CHANGES IN EQUITY for the year ended 28 February 2017

	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 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 charge		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
Total profit and comprehensive income			**196 983**	**196 983**	**405**	**197 388**
Release following exercise of share appreciation rights		**(2 567)**	**2 567**			
Cost of shares delivered in terms of share appreciation rights scheme			**(3 483)**	**(3 483)**		**(3 483)**
Share-based payment charge		**3 561**		**3 561**		**3 561**
Dividends paid			**(104 722)**	**(104 722)**		**(104 722)**
Balance at 28 February 2017	**38 091**	**6 981**	**527 358**	**572 430**	**1 127**	**573 557**

GROUP STATEMENT OF CASH FLOWS for the year ended 28 February 2017

	2017 R'000	2016 R'000
Cash flows from operating activities		
Cash generated from operations	273 354	596 122
Taxation paid	(79 754)	(84 748)
Net cash movement from operating activities	193 600	511 374
Cash flows from investing activities		
Purchase of plant and equipment	(36 242)	(37 007)
Proceeds on disposal of plant and equipment	5 146	7 422
Proceeds on disposal of businesses	49 890	31 205
Purchase of businesses	–	(5 537)
Insurance receivable	(8 130)	(9 614)
Insurance payable	–	(1 680)
Net cash movement from investing activities	10 664	(15 211)
Cash flows from financing activities		
Proceeds of issue of shares	–	11 579
Advance from non-controlling shareholder of subsidiary	(255)	–
Repurchase of shares	–	(251 643)
Cost of shares delivered in terms of share appreciation rights scheme	(3 483)	(8 511)
Finance income received	21 498	14 906
Finance costs paid	(126 338)	(117 644)
Dividends paid	(104 722)	(97 140)
Net cash movement from financing activities	(213 300)	(448 453)
Net movement in cash and cash equivalents	(9 036)	47 710
Cash and cash equivalents at beginning of year	498 254	450 544
Cash and cash equivalents at end of year	489 218	498 254

GROUP SEGMENT INFORMATION for the year ended 28 February 2017

	Total 2017 R'000	%	Retail Motor 2017 R'000	%	Car Hire 2017 R'000	%	Financial Services 2017 R'000	%	Corporate Services/ Other 2017 R'000	%	Marine and Leisure* 2017 R'000	%
Segment revenue	10 253 982	100	9 627 137	93	483 672	5	68 884	1	74 289	1	–	–
Inter-segment revenue	(29 082)	100	–	–	–	–	–	–	(29 082)	100	–	–
External revenue	10 224 900	100	9 627 137	94	483 672	5	68 884	1	45 207	–	–	–
Operating profit/(loss)	379 652	100	247 430	65	108 747	29	27 619	7	(4 144)	(1)	–	–
Finance income	21 498	100	–	–	–	–	5 379	25	16 119	75	–	–
Finance costs	(126 338)	100	(68 031)	54	(50 515)	40	–	–	(7 792)	6	–	–
Profit before taxation	274 812	100	179 399	65	58 232	21	32 998	12	4 183	2	–	–
After charging												
– employee costs	737 241	100	600 915	82	79 593	11	–	–	56 733	7	–	–
– depreciation charge	117 324	100	21 180	18	93 032	79	–	–	3 112	3	–	–
– impairment of goodwill	17 000	100	17 000	100	–	–	–	–	–	–	–	–
Total assets	2 786 806	100	1 380 717	50	844 769	30	38 162	1	523 158	19	–	–
Total liabilities	2 213 249	100	1 255 998	57	906 158	41	–	–	51 093	2	–	–
Goodwill at year-end	10 078	100	10 078	100	–	–	–	–	–	–	–	–

	Total 2016 R'000	%	Retail Motor 2016 R'000	%	Car Hire 2016 R'000	%	Financial Services 2016 R'000	%	Corporate Services/ Other 2016 R'000	%	Marine and Leisure* 2016 R'000	%
Segment revenue	11 086 217	100	10 493 058	94	422 932	4	67 027	1	65 700	1	37 500	–
Inter-segment revenue	(32 567)	100	–	–	–	–	–	–	(32 567)	100	–	–
External revenue	11 053 650	100	10 493 058	95	422 932	4	67 027	1	33 133	–	37 500	–
Operating profit/(loss)	372 905	100	253 513	68	90 973	24	34 554	9	(6 135)	(1)	–	–
Finance income	14 906	100	182	1	–	–	3 150	21	11 574	78	–	–
Finance costs	(117 644)	100	(75 725)	65	(41 469)	35	–	–	(450)	–	–	–
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	30 032	1	525 034	19	1 933	–
Total liabilities	2 302 656	100	1 446 173	63	803 642	35	–	–	51 877	2	964	–
Goodwill at year-end	27 078	100	27 078	100	–	–	–	–	–	–	–	–

** Discontinued*

EXTRACTS FROM THE REPORT OF THE CHIEF EXECUTIVE OFFICER

The Group achieved commendable results during what was a difficult year for the motor industry. The tough trading conditions which prevailed throughout the previous year, continued to place pressure on consumer spending. The year-on-year decline in GDP, coupled with the volatile economic climate, added to the financial strain on many households, and resulted in a 11,4% decline in national new vehicle sales.

Against this backdrop, the Group delivered a 17,8% increase in basic earnings per share, a 14,8% increase in headline earnings per share and a 25,6% improvement in dividends per share. The recommended dividend of 100 cents per share is 18% above that paid last year.

I am proud that, during the five years since 2012, a period during which the level of national new vehicle sales has shown steady decline, the Group has recorded 19% compound growth in headline earnings per share, and an impressive 27% growth in dividends per share. I believe that this track record places the Group alongside some of the best counters on the JSE.

FINANCIAL OVERVIEW

Principally as a result of the previously-reported closure of two BMW / Mini operations in 2015, and a third in June 2016, Group revenue fell 7%. In respect of the continuing operations, growth of 6% was achieved. The improved gross margin, from 15,8% to 16,4%, resulted in a decline of only 3,2% in gross profit. Strict cost control measures ensured that operating expenses in respect of the continuing operations were contained at a 5% increase. The goodwill impairment charge related to a loss-making dealership (R15 million), and the closed BMW/Mini branch (R2 million). The Group is left with only R10 million of goodwill, all of which is considered to be fairly valued. The net result is that the operating margin increased from 3,4% to 3,7%.

Despite the investment of R251 million last year in the repurchase of shares, the net finance cost remained almost unchanged. Utilisation of assessed losses created in prior years, and a lower level of non-deductible expenses, principally goodwill impaired, reduced the taxation rate from 32,3% to 28,2%. The net result was a 7,9% increase in earnings and, taking into account the fewer shares in issue, a 14,8% improvement in headline earnings per share.

The values reflected on the statement of financial position are largely unchanged from the previous year, with the exception of the treatment of the Group's car hire fleet. A conscious decision has been taken to extend the life of the fleet beyond the previous period of 12 – 15 months. As a result, the fleet has been recorded as a non-current asset. Whilst this change does give rise to the appearance that the long-term asset is financed by the utilisation of short-term borrowings, the reality is that movements in the fleet size and the borrowings level are linked. The borrowings level can be reduced at short notice by a sale of surplus vehicles, or by the utilisation of Group cash resources.

The Group's year-end cash resources balance of R489 million remained sound in line with that of last year. At year end R70 million had been used to settle interest-bearing fleet borrowings, and a further R200 million to reduce trade payables relating to new vehicle purchases.

OPERATIONAL OVERVIEW

For the third successive year, the national market for new vehicle sales has recorded a year-on-year decline. The volumes sold are at a level last recorded in 2010 and 2011, and 100 000 units below that of 2014, only two years ago. Reasons cited for the decline are the slowdown in the economy, above average price increases, pressure on household disposable income, and low levels of consumer confidence. Elevated political tension and increased electricity prices, rates and taxes exacerbated the problem.

Countering, to an extent, the fall in new vehicle sales has been the improvement in the used vehicle market. Whilst there are no reliable statistics to verify sales levels, indications from the major vehicle finance houses are that the national market increased by 3 – 4%. In comparison, Group volumes increased 6,7%. The trend of consumers purchasing used rather than new vehicles has continued.

Motor Retail

Against the national market which declined 11,4%, Group new vehicle sales, excluding the closed operations, fell 8,3%. Unlike in previous years, the high value models were also adversely affected, a sign that even the rich are suffering in the economic downturn. Dealers are faced with increased pressure from manufacturers to "move metal". In some instances dealer margins have been reduced, and replaced with more aggressive incentive schemes directed at boosting volumes at sub-economic margins. The Group's ability to meet the incentive qualifying criteria and benefit from the incentive schemes helped to improve gross margins.

Two of the Group's sub-performing dealerships have been closed. A further two have been combined with existing operations to take advantage of shared overheads. The used vehicle departments recorded a pleasing 20% improvement in profitability. An increased off take from the car hire division's retired fleet supplemented the source of quality retailable units.

The Group's workshops and parts departments provided stable and steady contributions. Renewed focus on workshop efficiency measures has produced increased hours sold from a reduced labour force. Aggressive marketing and customer-retention efforts have ensured optimal workshop throughput. The parts departments have also benefited from the higher workshop activity levels through increased sales at favourable margins. They have resisted the temptation to chase sales volumes at low margins and high debt collection risk.

Car Hire

First Car Rental has achieved an enviable 8 consecutive years of profit growth. Its success has elevated its contribution to 21%

of Group profit before taxation, a welcome underpin during a period in which the retail motor division has been under pressure. The business recorded revenue growth of 14%, largely because of increased penetration into both the business and tourism/leisure markets. A change in segmentation mix, with a focus on lower-volume, higher-margin business, has resulted in an increase in the average daily hire rate and an improvement in the profit margin, from 21,5% to 22,5%. Taking advantage of the build quality of current models, and the extended warranty plans offered by manufacturers, management has been able to extend the useful life of fleet vehicles, without compromising the offering to customers. This has resulted in a lower average rate of depreciation of the fleet as the initial diminution in value of a newly-registered vehicle is spread over a longer period.

Sharp new vehicle price increases have buoyed the used vehicle market and enabled the retired fleet, aged between 18 and 24 months, to be disposed of at favourable prices.

Financial Services

This segment recorded a 12,5% decline in pre-tax profit, mainly because of lower returns from the Group's finance joint ventures. The joint ventures, in partnership with two of the major vehicle finance houses, offer both fixed and variable rate credit to vehicle buyers. Fixed rate lending provides a higher interest rate margin for the lender, and offers greater certainty to the customer. Because of the relative stability in interest rates in recent years, fewer borrowers have opted for fixed rates and the net interest margin has declined.

Profit from the Group's insurance and vehicle warranty cells increased 10%. Despite the decline in Group vehicle sales, premium income increased 3%. This will provide stability in future years.

PROSPECTS

Until recently, the economy, whilst remaining fragile and volatile, did appear to be showing signs of a potential mild recovery. Market commentators believed that interest rates will remain stable, and may even fall marginally during the last quarter of calendar 2017. They were predicting modest GDP off a low base which bodes well for new vehicle sales which historically have shown a close correlation with GDP movements. The country is slowly recovering from one of the worst droughts in its history. The currency had recorded strength and should have provided relief for new vehicle prices. All this positivity was thrown into doubt and confusion by a few days of political mayhem, leading to a reversal of the Rand's gains, and the downgrading of the country's credit risk rating.

What is astounding is the potential for our political leaders, through their actions or inaction, to turn the economy on its head. There are not many countries where political influence can have such a damaging influence on the economy and public confidence as is the case in South Africa. Allegations of fraud, corruption, nepotism and incompetence within government circles continue to dominate news headlines. The ANC election conference, scheduled for the end of this year, has already split the party into conflicting factions, and the scramble for leadership positions, with the expectation of favours for supporting bodies, has the potential to result in violence. Rather than supporting the private sector drive for job creation and prosperity, the government is a stumbling block. Its leaders seem unwilling to accept responsibility for its failures and to replace incompetent and corrupt officials for fear of losing political patronage.

Within the motor industry the majority opinion is that, after a flat start, national new vehicle sales will start to gain traction during the second half of calendar 2017, with an improvement of 3 – 5%. After three years of decline, this will be a welcome relief. The availability of good quality used vehicles with less than 50 000 kilometres travelled will come under pressure as the demand continues. This will drive up prices and spark a natural shift back to the new vehicle market.

At Group level, the majority of out-of-line dealerships have been addressed, and the network has potential for organic growth. The Mazda and Mitsubishi branches are starting to reap the rewards of two successful years of new vehicle sales, and are experiencing increased workshop and parts demand. New product launches and more aggressive marketing support from the Volvo/Land Rover/Jaguar stable will herald an increase in sales volumes. This will benefit the Group's outlets which have suffered declining returns during the past three years. The workshops and parts departments are expected to show continued steady growth.

The Group's car hire and financial services segments provide 33% of its profit and, unless there is a surge in the motor retail contribution, this underpin is predicted to increase to 35% in the year ahead. First Car Rental can expect to obtain good prices for the fleet vehicles retired in the year ahead, but will come under some strain when it starts to replace them at prices which are some 15% higher. The business will look to expand its fledgling van and truck hire offering and increase penetration in the medium-term rental market.

The balance sheet and cash generation are strong and stable, and the Group is well-structured in terms of management and product offerings. I believe that the year ahead will be tough, but the Group is well positioned to take advantage of the potential upturn.

CHANGES IN DIRECTORATE

There has been no change in directors since the release of the interim results on 13 October 2016.

DIVIDEND DECLARATION

A dividend (dividend number 58) of 100 cents per share will be paid on Monday, 19 June 2017 to members reflected in the share register of the Company at the close of business on the record date, Thursday, 15 June 2017. Last day to trade cum dividend is Monday, 12 June 2017. First day to trade ex dividend is Tuesday, 13 June 2017. Share certificates may not be dematerialised or rematerialised from Tuesday, 13 June 2017 to Thursday, 15 June 2017, both days inclusive.

EXTRACTS FROM THE REPORT OF THE CHIEF EXECUTIVE OFFICER CONTINUED

The number of ordinary shares in issue at the date of the declaration is 74 801 998. Consequently, the gross dividend payable is R74 801 998 and will be distributed from income reserves. The dividend will be subject to dividend withholding tax at a rate of 20%, which will result in a net dividend of 80 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 28 February 2017 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. 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 3 May 2017.

By order of the board of directors

K Fonseca CA (SA)
Company Secretary

19 April 2017

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)
BWJ Barritt
LCZ Cele
JS Dixon
SK Jackson
ME Jones
JA Mabena
MR Nkadimeng

TRANSFER SECRETARIES
Computershare Investor Services Proprietary Limited
PO Box 61051
Marshalltown 2107

BUSINESS ADDRESS AND REGISTERED OFFICE
1 Wilton Crescent
Umhlanga Ridge 4319

SPONSORS
PricewaterhouseCoopers Corporate Finance Proprietary Limited
Private Bag X36
Sunninghill 2157

WEBSITE
www.cmh.co.za