COMBINED MOTOR HOLDINGS LIMITED FINANCIAL RESULTS

FOR THE YEAR ENDED 28 FEBRUARY 2015

GROUP STATEMENT OF FINANCIAL POSITION as at 28 February 2015

	2015 R'000	2014 R'000
ASSETS		
Non-current assets		
Plant and equipment	74 846	74 803
Goodwill	44 972	74 972
Insurance receivable	20 418	18 039
Deferred taxation	51 224	46 643
	191 460	214 457
Current assets		
Car hire fleet vehicles	609 811	572 765
Inventories	1 175 207	1 214 577
Trade and other receivables	266 293	263 831
Cash and cash equivalents	450 544	308 480
	2 501 855	2 359 653
Total assets	2 693 315	2 574 110
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	27 794	27 794
Share-based payment reserve	12 011	14 441
Retained earnings	600 543	523 379
Ordinary shareholders' equity	640 348	565 614
Non-controlling interest	275	112
Total equity	640 623	565 726
Non-current liabilities		
Insurance payable	1 680	2 156
Lease liabilities	74 298	90 244
Provisions	4 231	–
	80 209	92 400
Current liabilities		
Advance from non-controlling shareholder of subsidiary	255	4 193
Trade and other payables	1 279 367	1 258 014
Borrowings	667 561	622 962
Lease liabilities	15 232	8 759
Current tax liabilities	10 068	22 056
	1 972 483	1 915 984
Total liabilities	2 052 692	2 008 384
Total equity and liabilities	2 693 315	2 574 110

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 28 February 2015

	2015 R'000	Restated 2014 R'000
Continuing operations		
Revenue	10 737 862	10 703 616
Cost of sales	(8 986 601)	(9 056 748)
Gross profit	1 751 261	1 646 868
Impairment of goodwill	(30 000)	–
Selling and administration expenses	(1 395 103)	(1 329 645)
Operating profit	326 158	317 223
Finance income	14 821	13 709
Finance costs	(103 355)	(89 000)
Profit before taxation	237 624	241 932
Tax expense	(77 074)	(75 245)
Profit for the year from continuing operations	160 550	166 687
Discontinued operation		
(Loss)/profit for the year from discontinued operation (attributable to equity holders of the company)	(8 000)	2 745
Total profit and comprehensive income	152 550	169 432
Attributable to:		
Equity holders of the company	152 387	169 440
Non-controlling interest	163	(8)
	152 550	169 432
Reconciliation of headline earnings		
Profits/(losses) for the year attributable to equity holders of the company		
– from continuing operations	160 387	166 695
– from discontinued operation	(8 000)	2 745
Total profit and comprehensive income attributable to equity holders of the company	152 387	169 440
Non-trading items:		
– impairment of goodwill	30 000	–
– profit on sale of plant and equipment		
– gross	(93)	(115)
– impact of income tax	26	32
Headline earnings attributable to equity holders of the company	182 320	169 357
From continuing operations	190 320	166 612
From discontinued operation	(8 000)	2 745
	182 320	169 357
Weighted average number of shares in issue during year ('000 shares)	93 673	108 057

GROUP STATEMENT OF COMPREHENSIVE INCOME for the year ended 28 February 2015 continued

	2015 cents	Restated 2014 cents
Total earnings per share		
Basic	162,7	156,8
Diluted basic	160,1	154,9
Headline	194,6	156,7
Diluted headline	191,6	154,8
Earnings per share from continuing operations		
Basic	171,2	154,3
Diluted basic	168,5	152,4
Headline	203,1	154,2
Diluted headline	200,0	152,3
Earnings per share from discontinued operation		
Basic	(8,5)	2,5
Diluted basic	(8,4)	2,5
Headline	(8,5)	2,5
Diluted headline	(8,4)	2,5

GROUP STATEMENT OF CHANGES IN EQUITY for the year ended 28 February 2015

	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 2013	29 500	13 024	638 027	680 551	120	680 671
Issue of shares	1 274			1 274		1 274
Total profit and comprehensive income			169 440	169 440	(8)	169 432
Transfer to share capital	377	(377)				
Release following exercise of share appreciation rights		(2 182)		(2 182)		(2 182)
Loss on share appreciation rights exercised			(864)	(864)		(864)
Share-based payment reserve		3 976		3 976		3 976
Dividends paid			(85 026)	(85 026)		(85 026)
Shares repurchased	(3 357)		(198 198)	(201 555)		(201 555)
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

GROUP STATEMENT OF CASH FLOWS for the year ended 28 February 2015

	2015 R'000	2014 R'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit		
From continuing operations	326 158	317 223
From discontinued operation	(7 906)	3 001
	318 252	320 224
Adjustments for non-cash items		
Depreciation/other	138 365	103 836
Sale of car hire fleet vehicles	324 772	294 102
Purchase of car hire fleet vehicles	(443 107)	(427 013)
	338 282	291 149
Working capital changes		
Inventories	39 370	(29 609)
Trade and other receivables	(2 462)	176
Trade and other payables	20 084	129 817
Borrowings	44 599	59 846
Cash generated from operations	439 873	451 379
Taxation paid	(93 643)	(56 055)
Net cash movement from operating activities	346 230	395 324
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of non-current plant and equipment	(32 858)	(38 227)
Proceeds on disposal of non-current plant and equipment	4 807	5 105
Insurance receivables	(2 379)	(16 965)
Insurance payables	(476)	(452)
Net cash movement from investing activities	(30 906)	(50 539)
CASH FLOWS FROM FINANCING ACTIVITIES		
Non-controlling shareholders of subsidiaries	(3 938)	(7 000)
Proceeds of issue of shares	–	1 274
Repurchase of shares	–	(201 555)
Settlement of share appreciation rights	(3 413)	(3 382)
Finance income received	14 971	13 709
Finance costs paid	(103 599)	(89 256)
Dividends paid	(77 281)	(85 026)
Net cash movement from financing activities	(173 260)	(371 236)
Net movement in cash and cash equivalents	142 064	(26 451)
Cash and cash equivalents at beginning of year	308 480	334 931
Cash and cash equivalents at end of year	450 544	308 480

GROUP SEGMENT INFORMATION for the year ended 28 February 2015

	TOTAL				RETAIL MOTOR			
	2015 R'000	%	2014 R'000	%	2015 R'000	%	2014 R'000	%
External revenue	10 832 583	100	10 831 384	100	10 282 716	95	10 261 436	95
Operating profit	318 252	100	320 224	100	225 498	70	234 173	74
Net finance costs	(88 628)	100	(75 547)	100	(68 074)	77	(62 778)	83
Profit before taxation	229 624	100	244 677	100	157 424	68	171 395	70
Total assets	2 693 315	100	2 574 110	100	1 489 272	55	1 538 713	60
Total liabilities	2 052 692	100	2 008 384	100	1 283 403	63	1 272 973	63
Goodwill at year-end	44 972	100	74 972	100	44 972	100	74 972	100
Total employee costs	754 356	100	705 183	100	627 590	83	594 904	84
Number of staff	2 881	100	2 935	100	2 398	83	2 427	82

	CAR HIRE				MARINE AND LEISURE*			
	2015 R'000	%	2014 R'000	%	2015 R'000	%	2014 R'000	%
External revenue	368 493	3	337 439	3	94 721	1	127 768	1
Operating profit	77 889	24	65 431	20	(7 906)	(2)	(449)	–
Net finance costs	(40 413)	46	(35 594)	47	(94)	–	(256)	–
Profit before taxation	37 476	16	29 837	12	(8 000)	(3)	(705)	–
Total assets	673 268	25	645 072	25	34 587	1	51 432	2
Total liabilities	725 351	35	681 724	34	14 198	1	12 247	1
Goodwill at year-end	–	–	–	–	–	–	–	–
Total employee costs	71 468	10	63 678	10	9 462	1	9 841	1
Number of staff	373	13	368	13	3	–	28	1

	FINANCIAL SERVICES				CORPORATE SERVICES/OTHER			
	2015 R'000	%	2014 R'000	%	2015 R'000	%	2014 R'000	%
External revenue	60 268	1	77 910	1	26 385	–	26 831	–
Operating profit	33 683	11	30 289	9	(10 912)	(3)	(9 220)	(3)
Net finance costs	2 297	(3)	2 384	(3)	17 656	(20)	20 697	(27)
Profit before taxation	35 980	16	32 673	13	6 744	3	11 477	5
Total assets	20 419	1	18 039	1	475 769	18	320 854	12
Total liabilities	1 680	–	2 156	–	28 060	1	39 284	2
Goodwill at year-end	–	–	–	–	–	–	–	–
Total employee costs	–	–	–	–	45 836	6	36 760	5
Number of staff	–	–	–	–	107	4	112	4

* *Discontinued*

EXTRACTS FROM THE REPORT OF THE CHIEF EXECUTIVE OFFICER

It gives me pleasure to report on a strong set of financial results for the year ended 28 February 2015. Despite a difficult first half, in an economy beset by many national holidays and protracted strike action, the Group proved its resilience by recording commendable results. More stable trading conditions during the second six months, and an unrelenting focus on capital and cash management, and operating efficiencies, has underpinned a challenging, but rewarding, year.

The Group recorded a 24,2% increase in headline earnings per share, and has recommended a final dividend of 65,0 cents per share, up 30% on the previous year.

FINANCIAL OVERVIEW

Group revenue remained unchanged at R10,7 billion; however, the trading margin improved by 1%, from 15,3% to 16,3%, yielding an additional R104 million gross profit. The increase in selling and administration expenses, which includes variable expenses attaching to the increased gross margin, was well contained at 4,9%, and operating profit before goodwill impairment, improved by 12,3% to R356,2 million. The operating margin increased to 3,3% from its previous 3,0%.

As the result of the sub-performance of a dealership, it was considered prudent to impair the goodwill attributable to that operation, and a charge of R30 million was effected in the statement of comprehensive income. The net effect, after this charge, was a 2,8% increase in operating profit. Net finance costs increased by 17,6%, primarily due to the R200 million absorbed by the share repurchase effected in February 2014, and an additional R30 million investment in the car hire fleet.

The tax rate increased from 31,1% to 32,4% because of the non-deductibility of the goodwill impairment charge. A loss of R8 million was recorded in respect of the Group's discontinued marine and leisure division, more detail of which is provided in the operational overview.

The Group's return on shareholders' funds remained steady at a creditable 25,3%.

After eliminating the goodwill impairment charge, headline earnings attributable to equity holders increased by 7,7% to R182,3 million. Taking into account the reduced number of shares in issue, following the repurchase of 15,4 million shares in February 2014, headline earnings per share increased 24,2% to 194,6 cents. A dividend of 65,0 cents per share has been recommended. This, coupled with the 32,5 cents declared in October 2014, reflects an increase of 25% over the comparative period.

The assets and liabilities levels recorded in the statement of financial position remain substantially unchanged from the previous year. Inflationary increases in the value of inventory have been more than offset by a reduction in the marine and leisure, and MG/Maxus divisions. The increase in borrowings reflects the higher investment in the car hire fleet.

The cash flow statement once again reflects strong cash generation from operating activities. This cash generation, equal to 138% (2014: 140%) of operating profit, is key to expansion, payment of dividends and, more recently, the repurchase of shares.

OPERATIONAL OVERVIEW

One of the positive features of the year under review was that the market fundamentals, particularly interest and currency exchange rates, remained relatively stable. Both are of critical importance to the Group. This influence is not direct, because of the Group's low level of interest-bearing borrowings and exposure to currency risk, but does have an impact on the affordability levels of the Group's customers and their ability to raise acquisition funding.

The Group as a whole, and the Car Hire division, measured separately, have retained their status as level 4 and level 3 contributors respectively. However, management has assessed the impact of the revised, and considerably more challenging scorecard which will soon be effective, and believes that the Group's rating will be adversely affected. One of the challenges in this regard is that the motor manufacturers, from which the Group secures the vast majority of its purchases, do not have a favourable rating, and this reduces the Group's score.

Motor retail

Against a 2,6% decline in the national dealer market in respect of the brands which the Group represents, Group volume new vehicle sales declined 0,6%. Encouragingly, sales during the last quarter were up 11%. Despite expectations of an increase in used vehicle sales volumes, as a result of new vehicle price hikes, both national and Group unit volumes declined 5,9%. In line with the new vehicle sales trend, used vehicle sales improved 4,4% during the last quarter. I believe that it is inevitable that this trend will continue as the depreciating Rand places pricing strain on new vehicle manufacturers.

The infrastructure costs of a new dealership are prohibitive, making "green fields" expansion uneconomical. The Group was fortunate this year that it was able to open four new Mazda and six new Datsun operations in premises already established as Ford and Nissan dealerships respectively. The sharing of overheads ensures a much lower break-even volume, and provides for expense saving to be channelled into product marketing. A further Mazda, two Mitsubishi, and an Iveco branch will be opened during the first quarter of the new year.

Intense competition in a declining market has forced manufacturers to offer large discounts and other incentive packages to promote sales. Whilst qualification for these offerings is often premised on higher-than-optimal inventory levels, with consequent interest charges, they do enable dealers to negotiate favourable purchase price savings, which can be passed on to customers.

Sales of MG and Maxus vehicles, which are manufactured in China, have not met expectations. The strong Chinese currency, coupled with the weak Rand, has made it difficult to price the vehicles favourably against established local competitors. The Group's investment in these brands has been considerably reduced, and management is reviewing its options regarding the way forward.

Internet and electronic marketing is producing an increasing level of awareness and response. CMH Bid Auction provides a platform for the disposal to outside dealers of units which are not of the right quality to be marketed from showroom floors, or are surplus to requirements. The CarShop web-site generates an increasing number of sales leads, and the Group internet marketing platform has been consolidated under the brand "Rokkit Digital".

The Group's workshops and parts departments, which are the backbone of the dealerships' profitability, continued to produce steady, pleasing results.

Car Hire

This division enjoyed another successful year. Contributing to its success has been a 3,5% increase in rental days sold, coupled with a 1,8% improvement in average daily rental rates. Whilst seemingly low numbers, they combine to produce a significant increase in gross profit, with no attendant expense. In addition, the division has extended its average fleet life from 12–13 months, to 15 months. Although marginally older, the retired vehicles command the same selling price, with the result that the vehicle depreciation during the extended period is significantly reduced.

The division has recently announced the launch of a van and truck rental division, which will be leveraged off the existing infrastructure. In addition, under the brand name "Restart" it will market the hire of older vehicles, typically to fill temporary gaps in corporate fleets, for periods averaging 90 days. Both start-ups are expected to record modest growth and profit during the first 6 to 9 months, and thereafter to make a meaningful contribution.

Financial Services

This division comprises six insurance cells providing life, disability, retrenchment, and vehicle warranty cover, and two joint venture vehicle financing operations. The number of policies sold, and gross premium income, during the year was in line with that of 2014. This provides the platform for sustainable growth over the next 2 to 4 years. Gross profit, being the excess of premium income over claims paid, increased by seven percentage points as the result of an improved claims experience, and operating profit increased by 11,2% to R33,7 million. Continued growth is expected in the year ahead.

Marine and Leisure

The Board's decision to discontinue this division was prompted by substandard returns. Market surveys indicate that, following years of decline in consumers' disposable income, expenditure in this area has been steadily eroded. The emerging Black middle- and upper-level income groups have shown little interest in this form of leisure activity. At year-end the Group had an investment of R34 million in inventory and trade receivables. This has since been reduced by R8 million, and it is expected that it will be substantially liquidated by the end of August 2015.

SHARE REPURCHASE OFFER

The Board has proposed the repurchase of 21,1 million shares at a price of R11,83 per share. In terms of the proposal the Company will make an offer to all shareholders to voluntarily submit for repurchase all or a portion of their shareholding, or no shares. Because of the confirmation by the Zimmerman family that it will tender all of its 28,4 million shares for repurchase, an over-subscription is guaranteed. On this basis, each shareholder who tenders shares for repurchase will be paid *pro rata* to the total submissions received by the Company. The proposal will be placed before shareholders for approval in May 2015.

CHANGES IN DIRECTORATE

In July 2014 Maldwyn Zimmerman announced his retirement as a director. He has served the Group as director and, until recently, chairman since its inception in 1976, and his contribution has been invaluable. I take this opportunity to thank him for the guidance and support he has given me over many years, and wish him a long and healthy retirement.

Following Maldwyn's retirement, his son Issy was invited to the Board to represent the family's significant investment in the Group. During February 2014 the family took advantage of the Group's voluntary share repurchase offer, and disposed of some 15,0 million shares. The family has confirmed that it will similarly participate in the repeat offer which has been proposed by directors for approval by shareholders at the end of May 2015. On the assumption that a large majority of the 21,1 million shares proposed for repurchase are supplied by the family, its remaining interest will be reduced to approximately 7,3 million shares, and Issy has indicated that he intends to retire as a director with effect from the date of the annual general meeting.

Dineo Molefe, a director nominated by Thebe Investment Corporation, the Group's empowerment partner, resigned in June 2014, and in her place we welcomed Jerry Mabena.

Mike Jones was invited to join the Board on 16 April 2015.

PROSPECTS

I believe that the year ahead will be hampered by power outages and labour unrest. A lack of strategic planning over an extended period, particularly with regard to maintenance of Eskom's ageing infrastructure, has manifested in rolling blackouts which are hugely disruptive to the economy. There appears to have been a breakdown in Eskom's lines of authority and responsibility at leadership level, and this does not bode well for a speedy solution. Within the Group, an investment in alternative energy sources for over 100 dealerships and car hire depots is prohibitively expensive and impractical.

The recent expulsion of Cosatu's leader highlights the problems which have beset this Government-aligned labour union. Affiliates will be faced with the choice of remaining part of the existing union, or building a more independent alternative. The struggle to gain membership support will be contested in each workplace with a Cosatu union. Very often these battles turn violent, with paralysing consequences, and act as a deterrent to foreign investment in the country.

Within our industry, the outlook is towards a stable new vehicle sales market, with an expected marginal decline in passenger car sales offset by an improvement in the light commercial sector. The weakening of the Rand will inevitably result in price increases and a continued trend in favour of lower-priced models. The long-expected recovery of the used vehicle market does appear to have commenced, with a 5% upturn having been experienced this calendar year. Interest rates are anticipated to remain unchanged, at least until the last quarter of calendar 2015.

The Group has capacity for earnings growth by continuous elimination of under-performing outlets, and maximising the opportunities to drive further volumes through its existing infrastructure. Some of the low-volume manufacturers are starting to appreciate that the high cost of standalone dealerships cannot be supported by the sales of one product range, and are more amenable to independent showrooms being supported by a single parts, workshop and administration backup.

The Group's financial position and cash generation are strong. The manufacturers we represent are sound, long-term players in the South African market, and our leadership team is committed. All things considered, I am confident of another year of good financial performance.

DIVIDEND

A dividend (dividend number 54) of 65 cents per share will be paid on Monday, 15 June 2015 to members reflected in the share register of the Company at the close of business on the record date, Friday, 12 June 2015. Last day to trade 'cum' dividend is Friday, 5 June 2015. First day to trade 'ex' dividend is Monday, 8 June 2015. Share certificates may not be dematerialised or rematerialised from Monday, 8 June 2015 to Friday, 12 June 2015, both days inclusive. The number of ordinary shares in issue at the date of the declaration is 93 673 498. Consequently, the gross dividend payable is R60 888 000 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 55,25 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 28 February 2015 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 abridged 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 abridged 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 2014 Statement of Comprehensive Income have been restated to exclude the results of the discontinued Marine and Leisure operation.

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

The annual general meeting will be held at 1 Wilton Crescent, Umhlanga Ridge, at 15h00 on Thursday, 28 May 2015. The record date in terms of section 59(1)(a) of the Act for shareholders to be recorded on the securities register of the Company in order to receive notice of the annual general meeting is Friday, 24 April 2015. The record date in terms of section 59(1)(b) of the Act for shareholders to participate in and vote at the annual general meeting is Friday, 22 May 2015.

By order of the board of directors

K Fonseca CA (SA)
Company Secretary

21 April 2015

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
MPD Conway
JS Dixon
SK Jackson
ME Jones
JA Mabena
N Siyotula
II Zimmerman
JW Alderslade (alternate)

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