

Turners Automotive Group delivers 11% increase in underlying NPBT

- Underlying NPBT increased 11% to \$14.8m
- NPBT down 12% to \$14.8m (HY19 NPBT of \$16.8m includes gain on sale of property of \$3.5m)
- Group revenue increased 1% to \$171m
- Solid gains in the finance, insurance & credit management businesses
- Market share gains partially offset North Shore branch closure and a soft used car market
- Quarterly dividend of 4cps declared. Projected 17.0cps annual dividend (FY19: 17.0 cps)
- On-market share buyback concluded, with 4.5% reduction in issued shares at an average price of \$2.32/share
- Continued to progress strategic plan with focus on increasing auto retail market share, continued site expansion, de-risking of Oxford Finance, and market-leading technology investments
- Oxford process concluded, significant interest above book value, but in the Board's view, the offers did not fully reflect the intrinsic value of the business
- Turners will undertake a strategic review of EC Credit Control in FY21
- NPBT guidance for FY20 is \$28-30m. At the mid-point of \$29.0m this represents a 12% improvement on FY19 underlying profit.

Financial results

Turners Automotive Group (NZX: TRA) delivered an 11% increase in underlying net profit before tax (NPBT) from \$13.3m to \$14.8m for the six months ended 30 September 2019. Revenue increased by 1% to \$171m (HY19: \$168m). Three out of four business segments recorded gains during the period.

"We are pleased with this robust result, with three of four business segments recording gains in underlying profit." said CEO Todd Hunter. "Our largest segment, Auto Retail, outperformed market conditions as we continued to succeed in growing market share. Meanwhile, we started to execute on our strategic plan, which was communicated to the market in May 2019. "

Excluding the \$3.5m gain on property sale in HY19, underlying revenue increased by 3.6% or \$6.0m. Auto Retail delivered higher unit sales of owned stock, up 6% year-on-year, while Finance revenues have grown as a result of directing Turners origination into Oxford. Both of these offset a small decrease in Insurance revenue due to implementation of higher underwriting standards and a softer used-car market.

Reported NPBT, which is the basis for Turners' full year guidance, decreased to \$14.8m (HY19: \$16.8m) with net profit after tax (NPAT) of \$10.7m. Excluding the gain on sale of property of \$3.5m in HY19, Underlying NPBT increased by 11% to \$14.8m, driven by gains made in the Insurance, Finance and Credit divisions. NPBT for FY20 is expected to range between \$28m and \$30m.

Earnings per share were down 18% to 12.4 cents per share for the half year, reflecting a higher average number of shares on issue in HY20, a higher effective tax rate in HY20, and the property gain of \$3.5m in HY19. Shareholder equity increased to \$220m (HY19: \$217m) as at 30 September 2019.

Dividend

In May 2019 the Board increased the dividend payout ratio to 60-70% of net profit after tax (NPAT). This reflects their focus to return value to shareholders. The Board declared a second quarter fully imputed dividend of 4.0 cents per share, resulting in half year dividends of 8.0 cps. The Board is projecting a 4.0 cps dividend in Q3 and 5.0 cps in Q4, implying a 17.0 cps annual projected dividend (FY19: 17.0 cps, FY18: 15.5 cps). The projected payout of 17.0 cps (fully imputed) to shareholders represents a gross dividend yield of 9.4% at an indicative share price of \$2.53.

Strategic update

Turners communicated a Strategic Review to the market in May 2019. With a focus on sustainable growth, Turners' strategy is to simplify the business, accelerate growth in a capital efficient way and de-risk the business by focusing on its strengths. Through both increasing market share and establishing a growth platform that enables swift progress on new opportunities, Turners will continue to focus on long-term shareholder value and a resilient business model.

Turners has outlined five strategic themes:

1. Market share

Turners currently maintains ~6% market share of the used car retail transactions and will concentrate on increasing this through optimising existing branch networks, creating new consignment relationships, expanding its retail footprint and taking advantage of market consolidation.

2. Car market

Turners remains confident in the medium term demand within the broader market. With nearly 25% of the ~4m cars registered on NZ roads being 20 years or older, there are a large number of cars that need to be replaced in the medium term.

3. Oxford finance

Successful de-risking of Oxford finance through focusing on higher quality borrowers has led to a significant improvement in arrears and performance. Turners will continue to drive profitability from this division.

4. Property investment

Turners strategy to grow its New Zealand footprint and optimise existing sites through strategic property investment is well underway with four committed projects (new and relocations) over the next two years and five potential sites being investigated.

5. Technology

With a technology team of 29 and growing, Turners continues to see investment in "Auto-tech" as critical to building competitive advantage, particularly in the area of data and digital.

Grant Baker, Chairman, commented: *"Our new strategic plan positions us well to benefit from our competitive advantages throughout the cycle. We are well placed to put the foot down to expand our*

footprint to leverage the growing strength of the Turners brand. We are particularly focused on our own “auto-tech” initiatives, where we will continue to invest in a disciplined fashion to exploit our advantage in data and digital.”

Funding and buyback

Turners’ funding capacity is currently \$320m with \$72m undrawn. The increase in the securitisation warehouse facility reflects Turners Cars origination directed into Oxford and away from MTF. The securitisation funding facility limit is at \$200m (including capital contribution from TRA), which is expected to be extended in Q1 2020.

The on-market share buyback scheme reduced issued shares by 4 million (4.5%) at an average price of \$2.32.

Segment results

Turners’ strategy of retail optimisation is delivering good growth in retail market share. Whilst the used-car industry has softened due to reduced consumer confidence, Turners is confident that its growth plans will deliver for the company. Further consolidation is expected in the used car market as a result of the upcoming regulatory changes (mandatory Electronic Stability Control on all imported vehicles) which will provide further opportunity to build Turners’ retail market share. The Insurance, Finance and Credit businesses have all performed at or above expectations.

Auto Retail (Turners Group): Revenue \$115.9m +4%, Op profit \$7.3m -8%

The Automotive Retail division revenue increased by 4% to \$115.9m (HY19: \$111.8m) reflecting the higher number of “owned” cars sold. However, operating profit dropped 8% to \$7.3m (HY19: \$8m), reflecting reduced margins on used imports, a drop in lease consignment vehicles and the temporary 6-month closure of the North Shore branch. Meanwhile NPS (customer satisfaction score) increased to 68 from 49 in HY19, reflecting ongoing training and focus on the customer experience provided in-branch and online.

BuyNow retail sales increased 1% year-on-year with the opening of the New Plymouth and Whangarei branches. This was offset by the closure and relocation of the North Shore branch. The new site development has gone very well and North Shore trading is building in-line with expectations.

Inventory values reduced by 15% to \$36m, with the focus on being more efficient and ensuring the business is a high turnover operation. Unit sales of owned stock increased 6%, however, margin per unit was down 11%. Locally sourced vehicle margin increased by 5%, however, used import margins were down 16% due to increased supply chain costs and the weakening New Zealand dollar impacting margins on used import vehicles. There was less consignment stock from lease vendors as Turners’ cycled off a strong return period in HY19 (1,000 units less in HY20). Damaged vehicle units increased 4% with some good gains from existing insurance vendors. The division also implemented \$500k of cost reduction initiatives during HY20 largely within the rebranded Buy Right Cars business.

Finance (Oxford Finance): Revenue \$22.8m +6%, Op profit \$6.5m +20%

The Finance division had a solid half-year with revenue up 6% to \$22.8m (HY19: \$21.6m). Operating profit increased 20% to \$6.5m (HY19: \$5.4m), reflecting the significant improvements made in the quality of loans originated. Consumer loans originated in HY20 has a total arrears percentage of 2.4%, which is running at half the levels experienced in HY19. This has helped drive an overall improvement in consumer account balance arrears in the first half to 8.2% (HY19 9.0%).

Initiatives including the introduction of comprehensive credit reporting and implementation of a 3-tier risk pricing model, have contributed to the improving quality of new business. Turners Cars lending was particularly strong, ramping up to \$24m in HY20 (HY19: \$7.0m).

As part of the May 2019 Strategy Refresh, Turners conducted a comprehensive Strategic Review to consider alternative ownership and growth options for Oxford Finance. Investment bank Jarden were appointed to run a process for interested parties, which was concluded in September.

Whilst there was significant interest in Oxford Finance above the book value of the business, in the Board's view, the offers received did not fully reflect the intrinsic value of the business, both today and especially factoring in the planned organic growth. This view was supported by separate valuations from two corporate advisors. The Board therefore decided to conclude the strategic review and is excited to focus all efforts on the execution of the growth strategy.

Insurance (Autosure): Revenue \$22.2m -13%, Op profit (excluding property profit) \$2.6m +16%

Insurance revenue decreased 13% to \$22.2m (HY19: \$25.7m), with General Gross Written Premium (GWP) down 6% to \$17.5m as a result of market conditions and focusing on lower risk portfolios and vehicles.

Underlying profit increased 16% to \$2.6m (HY19: \$2.3m) as a result of the improvement in claims loss ratios and the improvements in risk pricing work that has gone on. The combined claims loss ratio is currently 60% (HY19: 63%), while the MBI loss ratio is a 68% (HY19: 72%).

All dealers are now transitioned to a new retail policy generation system which has provided further opportunity to manage portfolio risk. Turners will continue to review dealers' portfolio performance for risk pricing. The company is also pleased to have completed a culture and conduct review well ahead of the timeframe outlined by the Reserve Bank.

In November 2019, Turners agreed a Distribution Agreement with Heartland Bank between their respective brands, Autosure and MARAC. This enables Autosure products to be sold at point of sale through Heartland's consumer intermediary network from mid December 2019. Turners expects this to increase the dealer network by 20% and \$2m additional annual GWP from Q4 FY20.

Credit Management (EC Credit Control): Revenue \$9.9m +7%, Op profit \$3.6m +17%

Credit management revenue increased by 7% to \$9.9m (HY19: \$9.3m). Profit up 17% to \$3.6m (HY19: \$3.1m). This is largely due an increased debt load up 17% to \$133m mostly from New Zealand corporate

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clients as a result of EC Credit Control's positive performance in collection metrics. Commission earned from debt collected increased 21% to \$4.5m.

The division recently completed Xero and MYOB integrations and within a few months more than 150 customers have connected. Also pleasingly the business has significantly improved contact center staff retention with a more concerted effort on leadership training and a review of remuneration. Turners will undertake a strategic review of EC Credit Control in FY21.

Digital, Data and Disruption

Turners is pleased with the shifts that have been made in the area of digital marketing with a material increase in social channel marketing. Measurement has been a key area of development and the objective is to improve the customer conversion rate over the next 24 months. Pleasingly a 5% lift in web traffic has been seen since the rebranded Buy Right Cars inventory was included on www.turners.co.nz and digital marketing activity was lifted.

The initial results from the work with KPMG have been promising with the initial focus on developing tools to help understand vehicle profitability better. This will help target purchasing the right cars. Turners will continue to invest in this area and sees this being a key competitive advantage for Turners in the future.

Turners also made its first innovation investment into Collaborate Corp (CL8.ASX) in July this year. CL8 have launched vehicle subscription business Carly, with advanced plans to bring this to NZ in Q4 FY20. Turners is pleased with the progress seen in the Australian business and the traction it is getting with the industry and consumers.

Outlook and Guidance

Turners will continue to focus on organic growth in all its business divisions, but in particular is looking to build on the brand strength in "Turners" and grow the Auto Retail market share. This will come through branch expansion and continuing to optimise the existing network for retail customers.

With the introduction of ESC (Electronic Stability Control) as a compulsory feature for all vehicles imported into New Zealand from Mar 2020, Turners expects to see the used car industry consolidate further over 2019/2020 particularly for smaller dealers selling low priced vehicles. This market consolidation is seen as a positive for Turners.

Within finance and insurance businesses, Turners current strategy will continue to focus on organic growth through improving the underwriting standards, in addition to looking for opportunities to broaden distribution.

The Board is not expecting any significant one-off gains or losses in H2 and gives net profit before tax guidance of between \$28.0m to \$30.0m for FY20.

Company Announcement

27 November 2019



ENDS

About Turners

Turners Automotive Group Limited is an integrated financial services group, primarily operating in the automotive sector www.turnersautogroup.co.nz

For further information, please contact:

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Media Liaison and Assistance: Jackie Ellis, Mob: 027 246 2505

Results announcement

Results for announcement to the market		
Name of issuer	Turners Automotive Group Limited	
Report period	6 months to 30 September 2019	
Previous reporting period	6 months to 30 September 2018	
Currency	NZD	
	Amount (000s)	Percentage change
Revenue from continuing operations	\$170,555	4%
Total revenue	\$170,699	1%
Net profit from continuing operations	\$10,724	-17%
Total net profit	\$10,270	-19%
Interim dividend		
Amount per quoted equity security	\$0.04000000	
Imputed amount per quoted security	\$0.01555556	
Record date	20/01/2020	
Dividend payment date	30/01/2020	
Interim dividend	Current period	Prior comparable period
Net tangible assets per quoted security	\$0.75	\$0.74
A brief explanation of any of the figures above necessary to enable the figures to be understood	Please refer to accompanying Company Announcement	
Authority for this announcement		
Name of person authorised to make this announcement	Barbara Badish	
Contact person for this announcement	Todd Hunter	
Contact phone number	021 722 818	
Contact email address	Todd.Hunter@turners.co.nz	
Date of release through MAP	27/11/2019	

Unaudited financial statements accompany this announcement

TURNERS AUTOMOTIVE GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 September 2019

		Six months ended 30/09/2019 Unaudited \$'000	Six months ended 30/09/2018 Unaudited \$'000	Year ended 31/03/2019 Audited \$'000
	Note			
Revenue from continuing operations	3	170,555	164,573	328,358
Other income	3	144	3,718	8,221
Cost of goods sold		(72,589)	(65,274)	(133,126)
Interest expense		(7,729)	(7,975)	(14,952)
Impairment provision expense		(2,617)	(3,951)	(7,892)
Subcontracted services expense		(7,166)	(6,839)	(12,888)
Employee benefits (short term)		(27,790)	(27,108)	(52,756)
Commission		(7,070)	(6,943)	(14,581)
Advertising expense		(1,484)	(1,963)	(3,918)
Depreciation and amortisation expense		(5,865)	(2,706)	(5,785)
Property and related expenses		(975)	(5,693)	(10,945)
Systems maintenance		(612)	(784)	(1,471)
Claims		(13,094)	(13,527)	(26,804)
Movement in life insurance liabilities		(633)	(815)	(718)
Insurance deferred acquisition costs		(178)	391	(423)
Impairment of intangible brand asset		-	-	(4,300)
Other expenses		(8,096)	(8,307)	(16,971)
Profit before taxation		14,801	16,797	29,049
Taxation expense		(4,077)	(3,912)	(6,330)
Profit from continuing operations		10,724	12,885	22,719
Other comprehensive income for the period (which may subsequently be reclassified to profit/loss), net of tax				
Cash flow hedges		(466)	(121)	(364)
Foreign currency translation differences		12	(8)	(26)
Total comprehensive income for the period		10,270	12,756	22,329
Earnings per share (cents per share)				
Basic earnings per share	4	12.39	15.19	26.21
Diluted earnings per share	4	12.39	14.89	27.28

TURNERS AUTOMOTIVE GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2019

		Share Capital \$'000	Share Options Reserve \$'000	Translation Reserve \$'000	Cash flow reserve \$'000	Retained Earnings \$'000	Total \$'000
Balance at 31 March 2018 (audited)	Note	199,148	701	(21)	(164)	14,659	214,323
Change in accounting policy							
Impact of NZ IFRS 15		-	-	-	-	(345)	(345)
Impact of NZ IFRS 9		-	-	-	-	(2,292)	(2,292)
		-	-	-	-	(2,637)	(2,637)
Balance at 1 April 2018 (restated)		199,148	701	(21)	(164)	12,022	211,686
<i>Transactions with shareholders in their capacity as owners</i>							
Employee share based payments		-	163	-	-	-	163
Dividend paid	8	-	-	-	-	(8,056)	(8,056)
		-	163	-	-	(8,056)	(7,893)
<i>Comprehensive income</i>							
Profit		-	-	-	-	12,885	12,885
Other comprehensive income		-	-	(8)	(121)	-	(129)
Total comprehensive income for the period, net of tax		-	-	(8)	(121)	12,885	12,756
Balance at 30 September 2018 (unaudited)		199,148	864	(29)	(285)	16,851	216,549
<i>Transactions with shareholders in their capacity as owners</i>							
Capital contributions (net of issue costs)		13,388	-	-	-	-	13,388
Capital buy back		(6,141)	-	-	-	-	(6,141)
Employee share based payments		-	163	-	-	-	163
Dividend paid	8	-	-	-	-	(7,158)	(7,158)
		7,247	163	-	-	(7,158)	252
<i>Comprehensive income</i>							
Profit		-	-	-	-	9,834	9,834
Other comprehensive income		-	-	(18)	(243)	-	(261)
Total comprehensive income for the period, net of tax		-	-	(18)	(243)	9,834	9,573
Balance at 31 March 2019 (audited)		206,395	1,027	(47)	(528)	19,527	226,374
<i>Change in accounting policy</i>							
Impact of NZ IFRS 16	9	-	-	-	-	(5,665)	(5,665)
Balance at 1 April 2019 (restated)		206,395	1,027	(47)	(528)	13,862	220,709
<i>Transactions with shareholders in their capacity as owners</i>							
Capital contributions (net of issue costs)		97	-	-	-	-	97
Capital buy back		(3,192)	-	-	-	-	(3,192)
Cancellation of employee share options		-	(1,027)	-	-	1,027	-
Dividend paid	8	-	-	-	-	(7,855)	(7,855)
		(3,095)	(1,027)	-	-	(6,828)	(10,950)
<i>Comprehensive income</i>							
Profit		-	-	-	-	10,724	10,724
Other comprehensive income		-	-	12	(466)	-	(454)
Total comprehensive income for the period, net of tax		-	-	12	(466)	10,724	10,270
Balance at 30 September 2019 (unaudited)		203,300	-	(35)	(994)	17,758	220,029

TURNERS AUTOMOTIVE GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019

		30/09/2019	30/09/2018	31/03/2019
	Note	Unaudited \$'000	Unaudited \$'000	Audited \$'000
Assets				
Cash and cash equivalents	5	14,592	24,085	15,866
Financial assets at fair value through profit or loss				
- Insurance		59,934	51,693	62,657
- Other		3,500	3,579	3,595
Trade receivables		11,856	11,505	12,471
Inventory		36,492	42,877	38,859
Finance receivables	6	285,686	289,067	290,017
Other receivables and deferred expenses		13,052	14,291	10,955
Reverse annuity mortgages		5,859	9,287	8,294
Investment property		5,650	4,820	5,650
Investment in associate		1,310	-	-
Property, plant and equipment		52,648	35,122	39,084
Right-of-use assets		26,768	-	-
Intangible assets		166,629	170,843	166,734
Total assets		683,976	657,169	654,182
Liabilities				
Other payables		34,967	31,753	33,906
Financial liability at fair value through profit or loss		-	174	116
Contract liability		1,771	2,469	2,642
Deferred tax		11,122	17,269	13,918
Tax payable		1,073	876	4,570
Derivative financial instruments		992	295	524
Borrowings	7	319,588	330,291	312,863
Lease liabilities		34,640	-	-
Life investment contract liabilities		7,853	7,573	7,484
Insurance contract liabilities		51,941	49,920	51,785
Total liabilities		463,947	440,620	427,808
Shareholders' equity				
Share capital		203,300	199,148	206,395
Other reserves		(1,029)	550	452
Retained earnings		17,758	16,851	19,527
Total shareholders' equity		220,029	216,549	226,374
Total shareholders' equity and liabilities		683,976	657,169	654,182
Total assets per share (\$)		7.99	7.75	7.53
Net tangible assets (\$)		0.75	0.74	0.85

TURNERS AUTOMOTIVE GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 September 2019

	Six months ended 30/09/2019 Unaudited \$'000	Six months ended 30/09/2018 Unaudited \$'000	Year ended 31/03/2019 Audited \$'000
Note			
Cash flows from operating activities			
Interest received	22,314	25,037	45,023
Receipts from customers	146,706	138,210	279,472
Interest paid	(6,682)	(6,782)	(12,184)
Payment to suppliers and employees	(141,489)	(150,395)	(272,052)
Income tax paid	(8,190)	(8,671)	(10,752)
Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	12,659	(2,601)	29,507
Net increase in finance receivables	(8,863)	(9,770)	(34,926)
Net decrease in reverse annuity mortgages	2,787	1,146	2,545
Net decrease/(increase) of financial assets at fair value through profit or loss	3,346	(1,348)	(12,163)
Net contribution from life investment contracts	(814)	124	16
Changes in operating assets and liabilities arising from cash flow movements	(3,544)	(9,848)	(44,528)
Net cash (outflow)/inflow from operating activities	9,115	(12,449)	(15,021)
Cash flows from investing activities			
Proceeds from sale of property, plant, equipment and intangibles	467	8,858	9,388
Purchase of fixed assets and intangible assets	(15,808)	(5,811)	(12,753)
Investment in associate	(1,310)	-	-
Sale/(purchase) of investments	-	-	41
Net cash (outflow)/inflow from investing activities	(16,651)	3,047	(3,324)
Cash flows from financing activities			
Net bank loan advances/(repayments)	20,663	16,398	20,570
Principal elements of lease payments	(3,352)	-	-
Proceeds from the issue of shares	-	-	7,100
Buy back of shares	(3,194)	-	-
Proceeds from the issue of bonds	-	-	(561)
Other borrowings	-	-	(2,837)
Dividend paid	(7,855)	(8,056)	(15,214)
Net cash inflow/(outflow) from financing activities	6,262	8,342	9,058
Net movement in cash and cash equivalents	(1,274)	(1,060)	(9,287)
Add opening cash and cash equivalents	15,866	25,145	25,145
Translation difference	-	-	8
Closing cash and cash equivalents	14,592	24,085	15,866

TURNERS AUTOMOTIVE GROUP LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 September 2019

	Six months ended 30/09/2019 Unaudited \$'000	Six months ended 30/09/2018 Unaudited \$'000	Year ended 31/03/2019 Audited \$'000
RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss)	10,724	12,885	22,719
Adjustment for Non-cash items			
Impairment charge/(release) on finance receivables, reverse annuity mortgages and other receivables	2,844	3,994	7,943
Net (profit)/loss on sale fixed assets	(26)	(3,610)	(3,660)
Depreciation and amortisation	5,865	2,706	5,785
Capitalised reverse annuity mortgage interest	(367)	(451)	(846)
Deferred revenues	(848)	1,702	1,620
Fair value adjustments on assets/liabilities at fair value through profit and loss	(604)	(548)	(799)
Net annuity and premium change to policyholders accounts	1,183	322	341
Non-cash long term employee benefits	-	160	330
Non-cash adjustments to finance receivables effective interest rates	(344)	(42)	(209)
Deferred expenses	(1,930)	(1,129)	2,839
Fair value adjustment on investment property	-	-	(830)
Write off of intangible brand asset	-	-	4,300
Adjustment for Movements in Working Capital			
Net (increase)/decrease receivables and pre-payments	(1,549)	(2,280)	(259)
Net (increase)/decrease in inventories	2,581	(4,281)	(263)
Net increase/(decrease) in payables	166	(7,254)	(5,220)
Net increase/(decrease) in contract liabilities	(871)		132
Net increase in finance receivables	(8,863)	(9,770)	(34,926)
Net decrease in reverse annuity mortgages	2,787	1,146	2,545
Net (increase)/decrease of insurance assets at fair value through profit or loss	3,346	(1,348)	(12,163)
Net contributions/(withdrawals) from life investment contracts	(814)	124	16
Net (decrease)/increase in deferred tax liability	(643)	(4,159)	(3,565)
Net (decrease)/increase in tax payable	(3,522)	(616)	(851)
Net Cash inflow/(outflow) from Operating Activities	9,115	(12,449)	(15,021)

TURNERS AUTOMOTIVE GROUP LIMITED

1. ACCOUNTING POLICIES AND SIGNIFICANT JUDGEMENT, ESTIMATES AND ASSUMPTIONS

The same accounting policies included in the Group's Annual Report for the year ended 31 March 2019 have been applied when preparing these financial statements, except for the adoption of NZ IFRS 16 Leases as set out in note 9.

The same significant judgments, estimates and assumptions (including basis of segmentation) included in the notes to the financial statements in the Group's Annual Report for the year to 31 March 2019 have been applied to these financial statements. The business does not experience notable seasonal variations. There has been no change to the basis of segmentation from that applied at 31 March 2019.

2. SEGMENTAL INFORMATION

OPERATING SEGMENTS

Revenue	Total segment revenue 30/09/2019 Unaudited	Inter- segment revenue 30/09/2019 Unaudited	Revenue from external customers 30/09/2019 Unaudited	Total segment revenue 30/09/2018 Unaudited	Inter- segment revenue 30/09/2018 Unaudited	Revenue from external customers 30/09/2018 Unaudited	Total segment revenue 31/03/2019 Audited	Inter- segment revenue 31/03/2019 Audited	Revenue from external customers 31/03/2019 Audited
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Automotive retail	117,832	(1,982)	115,850	112,765	(969)	111,796	228,672	(2,963)	225,709
Finance	22,750	-	22,750	21,564	-	21,564	44,193	-	44,193
Credit management	9,885	-	9,885	9,249	-	9,249	18,196	-	18,196
Insurance	22,641	(430)	22,211	25,660	-	25,660	49,206	(742)	48,464
Corporate & other	3	-	3	147	(125)	22	17	-	17
	173,111	(2,412)	170,699	169,385	(1,094)	168,291	340,284	(3,705)	336,579
Operating profit									
							30/09/2019 Unaudited	30/09/2018 Unaudited	31/03/2019 Audited
							\$'000	\$'000	\$'000
Automotive retail							7,341	8,013	18,274
Finance							6,492	5,423	11,112
Credit management							3,608	3,076	6,321
Insurance							2,613	5,316	8,227
Corporate & other							(5,253)	(5,031)	(14,885)
Profit/(loss) before taxation							14,801	16,797	29,049
Income tax							(4,077)	(3,912)	(6,330)
Profit attributable to shareholders							10,724	12,885	22,719

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	Interest revenue		Interest expense		Depreciation and amortisation expenses	
	30/09/2019	31/03/2019	30/09/2019	31/03/2019	30/09/2019	31/03/2019
	Unaudited \$'000	Audited \$'000	Unaudited \$'000	Audited \$'000	Unaudited \$'000	Audited \$'000
Automotive retail	2,416	8,383	(2,198)	(4,206)	(3,848)	(2,457)
Finance	20,135	38,544	(3,551)	(6,596)	(382)	(413)
Credit management	4	9	(20)	-	(114)	(104)
Insurance	1,273	2,434	(47)	-	(1,407)	(2,746)
Corporate & other	4	17	(1,958)	(4,368)	(114)	(65)
	23,832	49,387	(7,774)	(15,170)	(5,865)	(5,785)
Eliminations	(45)	(218)	45	218	-	-
	23,787	49,169	(7,729)	(14,952)	(5,865)	(5,785)

Other material non-cash items

	Revenue		Expenses	
	30/09/2019	31/03/2019	30/09/2019	31/03/2019
	Unaudited \$'000	Audited \$'000	Unaudited \$'000	Audited \$'000
Automotive retail - impairment provisions	-	-	(129)	(503)
Finance - impairment provisions	-	-	(2,488)	(7,436)
Insurance - reverse annuity mortgage interest	367	846	-	-
Corporate & other - write down of brand and collateral	-	-	-	(4,570)
	367	846	(2,617)	(12,509)

2.2 SEGMENT ASSETS AND LIABILITIES

	Segment assets		Segment liabilities	
	30/09/2019	31/03/2019	30/09/2019	31/03/2019
	Unaudited \$'000	Audited \$'000	Unaudited \$'000	Audited \$'000
Automotive retail	154,086	132,839	109,438	88,065
Finance	285,416	276,356	221,927	216,996
Credit management	36,074	31,685	7,544	5,686
Insurance	132,943	135,001	73,502	73,293
Corporate & other	196,128	195,673	73,256	83,030
	804,647	771,554	485,668	467,070
Eliminations	(120,671)	(90,546)	(21,721)	(39,262)
	683,976	657,169	463,947	427,808

Five reportable segments have been identified as follows:

Automotive retail - remarketing (motor vehicles, trucks, heavy machinery and commercial goods) and purchasing goods for sale (motor vehicles and commercial goods) and related asset based finance to consumers.
Credit management - collection services, credit management and debt recovery services to the corporate and SME sectors. Geographically the collections services segment business activities are located in New Zealand and Australia.
Finance - provides asset based finance to consumers and SME's.
Insurance - marketing and administration of a range of life and consumer insurance and saving products.
Corporate & other - corporate centre.

TURNERS AUTOMOTIVE GROUP LIMITED

3. REVENUE

Revenue from continuing operations includes:

	Six months ended 30/09/2019 Unaudited \$'000	Six months ended 30/09/2018 Unaudited \$'000	Year ended 31/03/2019 Audited \$'000
Interest income	23,787	24,713	49,169
Sales of goods	86,073	79,022	159,438
Commission and other sales revenue	25,731	25,130	48,965
Finance related insurance commissions	1,539	3,372	4,199
Loan fee income	1,784	1,601	2,950
Insurance and life investment contract income	20,715	20,265	42,968
Collection income	9,833	9,245	18,187
Bad debts recovered	347	562	897
Other revenue	746	663	1,585
	170,555	164,573	328,358

Other income includes:

Revaluation gain on investment property	-	-	830
Dividend income	104	107	391
Gain on sale of property, plant and equipment	40	3,611	3,607
Gain on compulsory acquisition on leasehold premise by the NZTA	-	-	3,393
	144	3,718	8,221

Revenue from contracts with customers

Over time

Automotive retail

Commission and other sales revenue	13,721	11,683	23,352
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Insurance

Motor vehicle insurance commissions	940	843	1,731
	14,661	12,526	25,083

At a point in time

Automotive retail

Sales of goods	86,073	79,022	159,438
Auction commissions	12,010	13,447	25,613

Credit management

Collection income	9,099	8,322	16,506
Voucher income	734	923	1,681
	107,916	101,714	203,238

4. SHARE CAPITAL AND EARNINGS PER SHARE

	30/09/2019 Unaudited	30/09/2018 Unaudited	31/03/2019 Audited
Number of ordinary shares			
Opening balance	86,888,064	84,802,612	84,802,612
Shares issued for the dealer share scheme	40,752	-	79,050
Shares issued for the conversion of bonds	-	-	4,646,037
Shares purchased and cancelled under the share buy back	(1,374,106)	-	(2,639,635)
	85,554,710	84,802,612	86,888,064

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Basic earnings per share

The calculation of basic earnings per share at 30 September and 31 March was based on the profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding, as follows:

	Six months ended 30/09/2019 Unaudited	Six months ended 30/09/2018 Unaudited	Year ended 31/03/2019 Audited
Profit for the Period (\$'000)	10,724	12,885	22,719
Weighted average number of ordinary shares at the end of the period	86,560,829	84,802,612	86,671,483
Basic earnings per share (cents per share)	12.39	15.19	26.21

Weighted number of shares

Opening balance	86,888,064	84,802,612	84,802,612
Shares issued for the conversion of bonds	-	-	2,303,925
Shares issued for the dealer share scheme	5,345	-	20,766
Shares purchased and cancelled under the share buy back	(332,580)	-	(455,820)
	86,560,829	84,802,612	86,671,483

Diluted earnings per share

The calculation of diluted earnings per share at 30 September and 31 March was based on the diluted profit attributable to shareholders and a diluted weighted average number of ordinary shares outstanding as follows:

Continuing operations (\$'000)	10,724	12,885	22,719
Add: interest expense relating to optional convertible bonds, net of tax	-	598	598
Add: Long term incentive expense relation to options	-	163	326
Profit for the year (\$'000)	10,724	13,646	23,643

Weighted number of ordinary shares (diluted)

Weighted average number of shares (basic)	86,560,829	84,802,612	86,671,483
Effect of the conversion of bonds	-	6,816,220	-
Weighted average number of shares (diluted)	86,560,829	91,618,832	86,671,483
Diluted earnings per share (cents per share)	12.39	14.89	27.28

5. CASH AND CASH EQUIVALENTS

	30/09/2019 Unaudited \$'000	30/09/2018 Unaudited \$'000	31/03/2019 Audited \$'000
Cash and cash equivalents	14,592	24,085	15,866

The Group's insurance business is required to comply with the solvency standards for licensed insurers issued by the Reserve Bank of New Zealand. The solvency standards specify the level of assets the insurance business is required to hold in order to meet solvency requirements, consequently all cash and cash equivalents held in the insurance business may not be available for use by the wider Group. The Group's insurance business' cash and cash equivalents at 30 September 2019 were \$3.0m (30 September 2018: \$12.8m; 31 March 2019: \$2.2m).

Cash and cash equivalents at 30 September 2019 of \$2.9m (30 September 2018 :\$2.9m; 31 March 2019 : \$4.6m) belongs to the Turners Marque Warehouse Trust 1 and is not available to the Group.

6. FINANCE RECEIVABLES

	30/09/2019 Unaudited \$'000	30/09/2018 Unaudited \$'000	31/03/2019 Audited \$'000
Gross finance receivables	299,962	299,558	303,376
Deferred fee revenue and commission expenses	5,808	6,205	6,236
Provision for impairment	(20,084)	(16,696)	(19,595)
	285,686	289,067	290,017

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Securitisation

The Group has a wholesale funding facility with the Bank of New Zealand (BNZ) under which it securitises finance receivables through The Turners Marque Warehouse Trust 1 (the Trust). Under the facility, BNZ provides funding to the Trust secured by finance receivables sold to the Trust from the finance segment. The facility is for a 24 month term that will be renewed annually. The facility is for \$200m.

The Trust is a special purpose entity set up solely for the purpose of purchasing finance receivables from the finance sector with the BNZ funding up to 92% of the purchase price with the balance funded by sub-ordinated notes from the Group. The New Zealand Guardian Trust Company Limited has been appointed Trustee for the Trust and NZGT Security Trustee Limited as the security trustee. The Company is the sole beneficiary.

The Group has the power over the Trust, exposure, or rights, to variable returns from its involvement with the Trust and the ability to use its power over the Trust to affect the amount of the Group's returns from the Trust. Consequently the Group controls the Trust and has consolidated the Trust into the Group's financial statements.

The Group retains substantially all the risks and rewards relating to the finance receivables sold and therefore the finance receivables do not qualify for derecognition and remain on the Group's consolidated statement of financial position.

During the reporting period \$67.0m finance receivables were sold to the Trust (30 September 2018: \$44.8m; 31 March 2019: \$114.5m). As at 30 September 2019 the carrying value of financial receivables in the Trust was \$177.8m (30 September 2018: \$151.3m; 31 March 2019: \$175.3m).

7. BORROWINGS

	30/09/2019 Unaudited \$'000	30/09/2018 Unaudited \$'000	31/03/2019 Audited \$'000
Secured bank borrowings	271,945	247,111	251,282
Deferred borrowing costs	(217)	(243)	(105)
	271,728	246,868	251,177
Non-bank borrowings			
Motor Trade Finance	23,155	54,986	37,055
Vendor property funding	-	2,876	-
	23,155	57,862	37,055
Bonds	25,000	25,561	25,000
Deferred issue costs	(295)	-	(369)
	24,705	25,561	24,631
Total borrowings	319,588	330,291	312,863

Secured bank borrowings

The Group has a syndicated funding facility with the Bank of New Zealand and ASB Bank, a self liquidating trade finance facility with ASB Bank and securitisation facility with the Bank of New Zealand.

The bank borrowings are secured by a first-ranking general security agreement over the assets of the Company and its subsidiaries, excluding DPL Insurance Limited, Turners Finance Limited and EC Credit (Aust.) Limited. The Group's securitisation financing arrangement is described under finance receivables.

Motor Trade Finance

Turners Finance Limited is a shareholder of a motor trade based company called Motor Trade Finance Limited (MTF). MTF provides the services of a finance company, including funding, on a full recourse basis back to its shareholders.

MTF provides finance to Turners Finance Limited to fund the finance receivables. The MTF funding is secured by a chattel security over the Turners Finance Limited's customer's asset securing the finance receivable and by a general security over the assets of Turners Finance Limited.

Turners Finance Limited has also given undertakings to MTF as the nature and conduct of its business, and overall quality of the finance receivables and aggregate. Turners Finance has complied with these undertakings in the current and prior financial year.

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Bonds

On 1 October 2018 Turners Automotive Group issued secured subordinated fixed rate bonds with a fixed maturity on 30 September 2021. Interest is fixed at 5.5% and is paid quarterly in arrears in equal amounts. The bonds rank behind the indebtedness owing under the bank facilities and are guaranteed by Turners Automotive Group Limited, Oxford Finance Limited, Buy Right Cars (2016) Limited, EC Credit (NZ) Limited, Estate Management Services Limited, Payment Management Services Limited, EC Web Services Limited, Turners Group NZ Limited, Turners Fleet Limited and Turners Property Holdings Limited.

8. DIVIDENDS

	Six months ended 30/09/2019 Unaudited \$'000	Six months ended 30/09/2018 Unaudited \$'000	Year ended 31/03/2019 Audited \$'000
Interim dividend for the year ended 31 March 2019 of \$0.04 (31 March 2018: \$0.045) per fully paid ordinary share, imputed, payable on 30 April 2019 (2018: 20 April 2018).	3,489	3,816	3,816
Final dividend for the year ended 31 March 2019 of \$0.05 (31 March 2018: \$0.05) per fully paid ordinary share, imputed paid on 18 July 2019 (2018: 18 July 2018).	4,366	4,240	4,240
Interim dividend for the year ended 31 March 2019 of \$0.04 (per fully paid ordinary share, imputed, paid on 30 October 2018).	-	-	3,596
Interim dividend for the year ended 31 March 2019 of \$0.04 per fully paid ordinary share, imputed, paid on 30 January 2019.	-	-	3,562
Total dividends provided for or paid	7,855	8,056	15,214

Dividends not recognised at the end of the half year:

In addition to the above dividends, since the end of the period the directors have recommended the payment of the following dividends expected to be paid out of retained earnings at 30 September 2019, but not recognised as a liability at the end of the period:

Interim dividend for the year ended 31 March 2020 of \$0.04 (31 March 2019: \$0.04) per fully paid ordinary share, imputed, payable on 22 October 2019 (2018: 30 October 2018).	3,441	3,596	-
Interim dividend for the year ended 31 March 2020 of \$0.04 (31 Mar 2019: \$0.04) per fully paid ordinary share, imputed, payable on 30 January 2020 (2019: 30 January 2019).	3,422	3,562	-

9. CHANGE IN ACCOUNTING POLICY

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019.

The Group has adopted IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019.

Adjustments recognised on adoption of NZ IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 6.1%.

	\$'000
Operating lease commitments disclosed as at 31 March 2019	32,511
Discounted using the incremental borrowing rate of at 1 April 2019	26,863
Less: short-terms leases recognised on a straight-line basis as expense	(168)
Add: adjustments as a result of a different treatment of extension and termination options	10,080
Lease liability recognised as at 1 April 2019	36,775

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

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The recognised right-of-use assets relate to the following types of assets:

	30/09/2019	1/04/2019
	\$'000	\$'000
Properties	26,563	28,279
Equipment	205	250
Total right-of-use assets	26,768	28,529

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:

	1/04/2019
	\$'000
Right-of-use assets presented in property, plant and equipment	28,531
Other payables	(376)
Deferred tax	(2,203)
Lease liabilities	36,775
Retained earnings	(5,665)

Practical expedients applied

In applying NZ IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying NZ IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Impact of the adoption of NZ IFRS 16 in the Statement of financial position as at 1 April 2019:

	31/03/2019	1/04/2019	1/04/2019
	As originally presented	NZ IFRS 16 adjustments	restated
	\$'000	\$'000	\$'000
Assets			
Cash and cash equivalents	15,866	-	15,866
Financial assets at fair value through profit or loss			
- Insurance	62,657	-	62,657
- Other	3,595	-	3,595
Trade receivables	12,471	-	12,471
Inventory	38,859	-	38,859
Finance receivables	290,017	-	290,017
Other receivables and deferred expenses	10,955	-	10,955
Reverse annuity mortgages	8,294	-	8,294
Investment property	5,650	-	5,650
Property, plant and equipment	39,084	-	39,084
Right-of-use assets	-	28,531	28,531
Intangible assets	166,734	-	166,734
Total assets	654,182	28,531	682,713

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	31/03/2019 As originally presented \$'000	1/04/2019 NZ IFRS 16 adjustments \$'000	1/04/2019 restated \$'000
Liabilities			
Other payables	33,906	(376)	33,530
Financial liability at fair value through profit or loss	116	-	116
Contract liability	2,642	-	2,642
Deferred tax	13,918	(2,203)	11,715
Tax payable	4,570	-	4,570
Derivative financial instruments	524	-	524
Borrowings	312,863	-	312,863
Lease liabilities	-	36,775	36,775
Life investment contract liabilities	7,484	-	7,484
Insurance contract liabilities	51,785	-	51,785
Total liabilities	427,808	34,196	462,004
Shareholders' equity			
Share capital	206,395	-	206,395
Other reserves	452	-	452
Retained earnings	19,527	(5,665)	13,862
Total shareholders' equity	226,374	(5,665)	220,709
Total shareholders' equity and liabilities	654,182	28,531	682,713

Presentation of the Statement of comprehensive income for the six months ended 30 September 2019 as if NZ IFRS 17 had not been adopted:

	30/09/2019 reported with adopting NZ IFRS 16 \$'000	Six months ended 30/09/2019 NZ IFRS 16 adjustments \$'000	30/09/2019 reported without adopting NZ IFRS 16 \$'000
Revenue from continuing operations	170,555	-	170,555
Other income	144	-	144
Cost of goods sold	(72,589)	-	(72,589)
Interest expense	(7,729)	1,043	(6,686)
Impairment provision expense	(2,617)	-	(2,617)
Subcontracted services expense	(7,166)	-	(7,166)
Employee benefits (short term)	(27,790)	-	(27,790)
Commission	(7,070)	-	(7,070)
Advertising expense	(1,484)	-	(1,484)
Depreciation and amortisation expense	(5,865)	3,128	(2,737)
Property and related expenses	(975)	(4,395)	(5,370)
Systems maintenance	(612)	-	(612)
Claims	(13,094)	-	(13,094)
Movement in life insurance liabilities	(633)	-	(633)
Insurance deferred acquisition costs	(178)	-	(178)
Impairment of intangible brand asset	-	-	-
Other expenses	(8,096)	-	(8,096)
Profit before taxation	14,801	(224)	14,577
Taxation expense	(4,077)	63	(4,014)
Profit from continuing operations	10,724	(161)	10,563
Other comprehensive income for the period (which may subsequently be reclassified to profit/loss), net of tax			
Cash flow hedges	(466)	-	(466)
Foreign currency translation differences	12	-	12
Total comprehensive income for the period	10,270	(161)	10,109
Earnings per share (cents per share)			
Basic earnings per share	12.39	(0.19)	12.20

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Presentation of the Statement of financial position as at 30 September 2019 as if NZ IFRS 17 had not been adopted:

	30/09/2019 presented with adopting NZ IFRS 16 \$'000	Six months ended 30/09/2019 NZ IFRS 16 adjustments \$'000	30/09/20019 reported without adopting NZ IFRS 16 \$'000
Assets			
Cash and cash equivalents	14,592	-	14,592
Financial assets at fair value through profit or loss			
- Insurance	59,934	-	59,934
- Other	3,500	-	3,500
Trade receivables	11,856	-	11,856
Inventory	36,492	-	36,492
Finance receivables	285,686	-	285,686
Other receivables and deferred expenses	13,052	-	13,052
Reverse annuity mortgages	5,859	-	5,859
Investment property	5,650	-	5,650
Investment in associate	1,310	-	1,310
Property, plant and equipment	52,648	-	52,648
Right-of-use assets	26,768	(26,768)	-
Intangible assets	166,629	-	166,629
Total assets	683,976	(26,768)	657,208
Liabilities			
Other payables	34,967	228	35,195
Contract liability	1,771	-	1,771
Deferred tax	11,122	2,140	13,262
Tax payable	1,073	-	1,073
Derivative financial instruments	992	-	992
Borrowings	319,588	-	319,588
Lease liabilities	34,640	(34,640)	-
Life investment contract liabilities	7,853	-	7,853
Insurance contract liabilities	51,941	-	51,941
Total liabilities	463,947	(32,272)	431,675
Shareholders' equity			
Share capital	203,300	-	203,300
Other reserves	(1,029)	-	(1,029)
Retained earnings	17,758	5,504	23,262
Total shareholders' equity	220,029	5,504	225,533
Total shareholders' equity and liabilities	683,976	(26,768)	657,208
Total assets per share (\$)	7.99		7.68
Net tangible assets (\$)	0.75		0.84

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Presentation of the Segment information as at 30 September 2019 as if NZ IFRS 17 had not been adopted:

Operating profit	30/09/2019 reported with adopting NZ IFRS 16 \$'000	Six months ended 30/09/2019 NZ IFRS 16 adjustments \$'000	30/09/2019 reported without adopting NZ IFRS 16 \$'000
Automotive retail	7,341	(200)	7,141
Finance	6,492	(46)	6,446
Credit management	3,608	2	3,610
Insurance	2,613	29	2,642
Corporate & other	(5,253)	(9)	(5,262)
Profit/(loss) before taxation	14,801	(224)	14,577
Income tax	(4,077)	63	(4,014)
Profit attributable to shareholders	10,724	(161)	10,563
Interest expense			
Automotive retail	(2,198)	961	(1,237)
Finance	(3,551)	14	(3,537)
Credit management	(20)	20	-
Insurance	(47)	47	-
Corporate & other	(1,958)	1	(1,957)
	(7,774)	1,043	(6,731)
Eliminations	45	-	45
	(7,729)	1,043	(6,686)
Depreciation and amortisation expense			
Automotive retail	(3,848)	2,712	(1,136)
Finance	(382)	172	(210)
Credit management	(114)	74	(40)
Insurance	(1,407)	95	(1,312)
Corporate & other	(114)	75	(39)
	(5,865)	3,128	(2,737)
Segment assets			
Automotive retail	154,086	(26,545)	127,541
Finance	285,416	(343)	285,073
Credit management	36,074	(639)	35,435
Insurance	132,943	(1,627)	131,316
Corporate & other	196,128	(16)	196,112
	804,647	(29,170)	775,477
Eliminations	(120,671)	2,402	(118,269)
	683,976	(26,768)	657,208
Segment liabilities			
Automotive retail	109,438	(31,850)	77,588
Finance	221,927	(398)	221,529
Credit management	7,544	(711)	6,833
Insurance	73,502	(1,698)	71,804
Corporate & other	73,256	(17)	73,239
	485,668	(34,674)	450,994
Eliminations	(21,721)	2,402	(19,319)
	463,947	(32,272)	431,675

The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, retail stores, equipment and cars. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options as described in below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

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Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group has applied judgement to determine lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets.