The Colonial Motor Company Limited

98th Annual Report 2016

The Colonial Motor Company Limited

BOARD OF DIRECTORS	J P (Jim) Gibbons, Chairman Graeme D Gibbons Falcon R S Clouston Denis M Wood Matthew J Newman Stuart B Gibbons Ashley J Waugh
CHIEF EXECUTIVE	Graeme D Gibbons
COMPANY SECRETARY	Nicholas K Bartle
GROUP ACCOUNTANT	Deirdre F Doyle
AUDITOR	Grant Thornton New Zealand Audit Partnership (Partner Michael Stewart)
BANKERS	ANZ Bank New Zealand Limited Bank of New Zealand Westpac New Zealand Limited
SHARE REGISTRY	Computershare Investor Services Limited Level 2, 159 Hurstmere Road Takapuna, North Shore Private Bag 92119 Auckland 1142 Website: www.computershare.co.nz/investorcentre
REGISTERED OFFICE AND ADDRESS FOR SERVICE	Level 6 57 Courtenay Place PO Box 6159 Wellington 6141 New Zealand Telephone (04) 384-9734 Facsimilie (04) 801-7279 E-mail address cmc@colmotor.co.nz Website www.colmotor.co.nz

PROSPECTIVE DATES FOR 2017		
	Interim Half Year Report	Late February
	Interim Dividend	18 April
	Preliminary Full Year Report	Late August
	Annual Report	Late September
	Final Dividend	16 October
	Annual Meeting	3 November

Shareholder enquiries can be addressed to the Registered Office or directly to the Share Registry.

The Colonial Motor Company Limited
and Subsidiary Companies

NOTICE OF ANNUAL MEETING

Notice is hereby given that the 98th annual meeting of shareholders of
The Colonial Motor Company Limited
will be held in the
Hospitality Suite, St James Theatre, 77-87 Courtenay Place,
Wellington, New Zealand
on Friday, 4 November 2016 commencing at 12:00 midday.

Agenda

1. The Chairman's introduction
2. Address from the Chairman
3. Shareholder discussion
4. Resolutions (see explanatory notes)

   To consider and, if thought fit, pass the following ordinary resolutions.

   (a) To re-elect Mr James Picot Gibbons as a Director of the Company

   (b) To re-elect Mr Matthew James Newman as a Director of the Company

   (c) To record the on-going appointment of Grant Thornton as Auditor and to authorise the directors to fix the Auditor's remuneration.
5. General business

By order of the Board

N K Bartle
Company Secretary
16 September 2016

Explanatory notes to resolutions
Ordinary resolutions are passed by a simple majority of votes.

In accordance with the Company's constitution and the NZX listing rules, one third of the directors are required to retire each year. The directors retiring by rotation at the 2016 Annual Meeting are J P Gibbons and M J Newman. Both continue to be eligible and offer themselves for re-election.

Under section 200 of the Companies Act 1993, the Auditor is automatically re-appointed each year unless ineligible or replaced.

Proxies
Any shareholder is entitled to attend and vote at the meeting or to appoint a proxy to attend on their behalf. A proxy need not be a shareholder of the Company. A proxy form accompanies this notice. Proxy forms must be received at the registered office of the company not later than 48 hours prior to the scheduled commencement of the meeting.

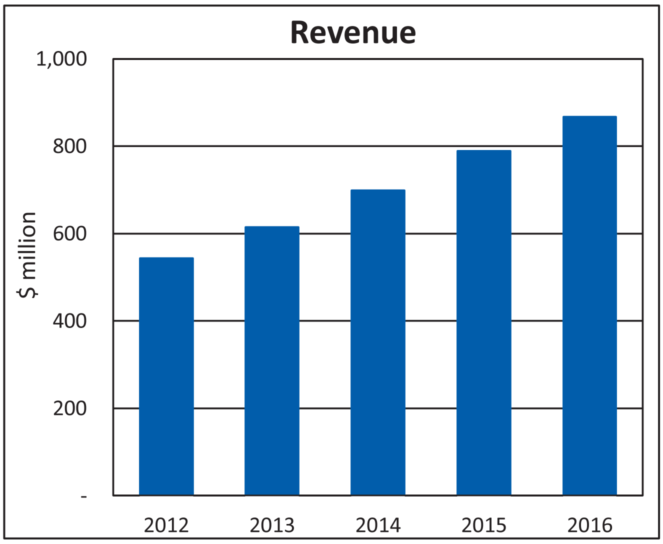
Representatives of Corporations
Corporate bodies appointing a representative to attend the meeting should comply with Clause 23 of the Constitution that reads as follows:

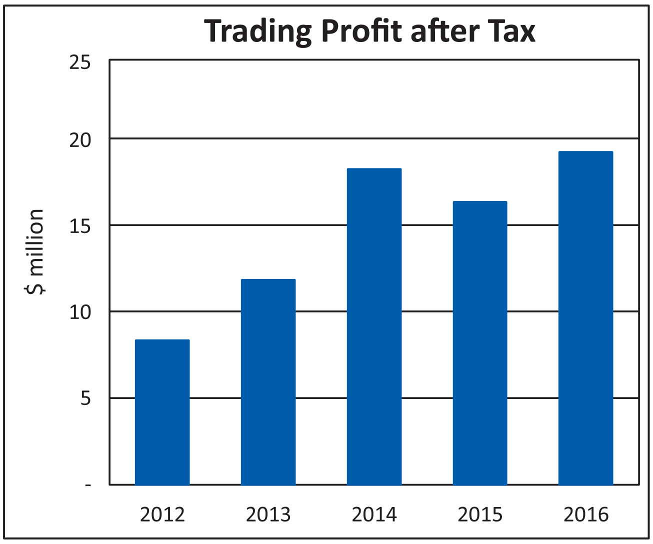
> *"Appointment of representative: A corporation which is a shareholder may appoint a person to attend a meeting of shareholders on its behalf in the same manner as that in which it could appoint a proxy."*

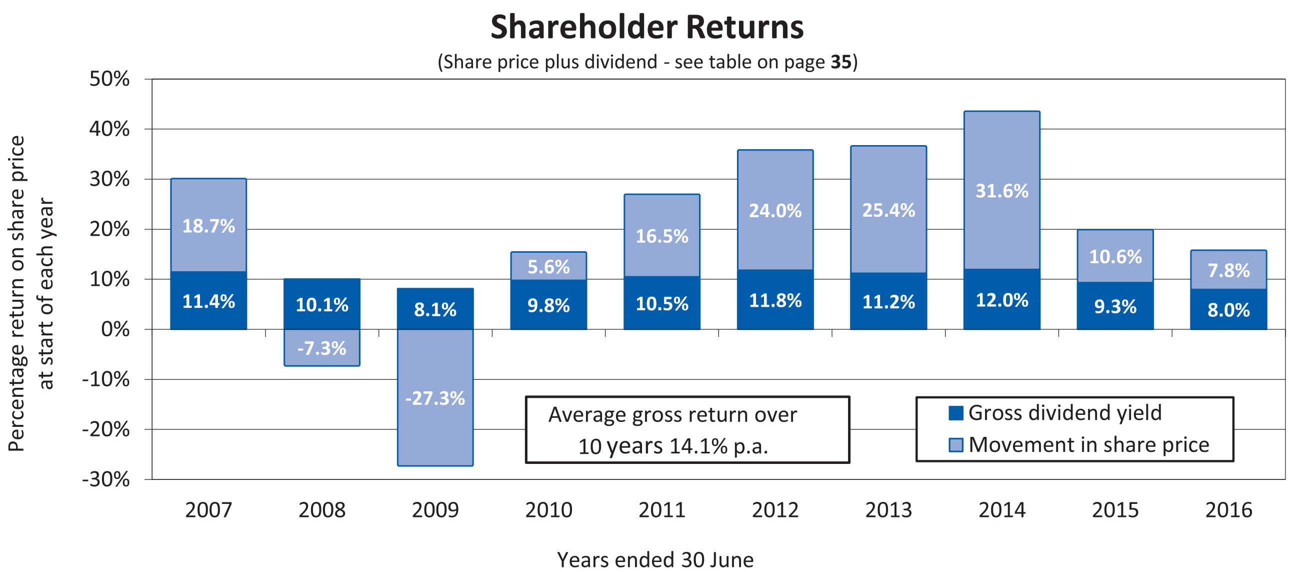
The Colonial Motor Company Limited
and Subsidiary Companies

Facts and Trends at a Glance

	2016	2015	2014	2013	2012
Revenue ($000)	867,237	789,377	699,314	614,407	543,359
Trading profit after tax (excluding non-trading Items) ($000)	19,207	16,326	18,221	13,867	11,835
Profit after tax attributable to shareholders ($000)	21,479	17,597	19,153	13,902	15,123
Return on average shareholders' funds - trading profit	12.2%	11.2%	13.4%	10.9%	9.9%
- net profit	13.7%	12.1%	14.1%	10.9%	12.7%
Trading profit per dollar of revenue	2.2c	2.1c	2.6c	2.3c	2.2c
Earnings per share - trading profit after tax	58.7c	49.9c	55.7c	42.4c	36.2c
- profit for the year	65.7c	53.8c	58.6c	42.5c	46.3c
Dividend per share	40.0c	33.0c	35.0c	30.0c	25.0c
Total dividends for the year ($000)	13,078	10,789	11,443	9,808	8,174
Shares on issue at reporting date	32.695m	32.695m	32.695m	32.695m	32.695m
Current ratio	1.5	1.4	1.4	1.4	1.3
Shareholders' equity as a percent of total assets	54.4%	45.9%	49.3%	50.7%	47.4%
Net tangible asset backing per share (after final dividend is paid)	$4.69	$4.33	$4.05	$3.79	$3.61







The Colonial Motor Company Limited
and Subsidiary Companies

Directors' Report

Your Directors have pleasure in presenting the 98th annual report and audited financial statements of The Colonial Motor Company Limited ("CMC" or "Company") and its subsidiaries ("Group") for the year ended 30 June 2016.

Revenue and profit
Revenue for the year increased to $867.2m. This is a 10% increase on the previous year's $789.4m.

The trading profit after tax for the year was $19.2m, up 18% on last year's $16.3m. Trading profit after tax is a consistent measure of the underlying trading profitability of the Group before valuation changes of assets and deferred tax. The movement from last year reflects the record year experienced by the NZ motor vehicle market combined with rising market share of our major brands. Profit for the year, which included a number of non-trading items relating to the profit on sale of the dealership property on Taranaki Street in Wellington of $1.1m, asset revaluations and deferred tax, was up 21% on last year to $22.6m (2015: $18.7m).

Comprehensive income
Other comprehensive income for the year consisted of the following two elements and their respective deferred tax effects:

- The upward revaluation of land and buildings to current market values reflecting the ongoing strength of the commercial property market in many parts of the country.
- The negative valuation of currency contracts entered into to pay for future truck orders recognising the short term fluctuations in exchange rates around balance date. This is discussed in more detail in note 19(d) to the financial statements.

Statement of financial position
Total assets reduced to $300.9m at year end (2015: $326.4m) following a significant reduction in inventory which fell by 13% to $138.8m. (2015: $160.0m). Strong cash flows resulting from lower inventory levels and the sale of the Taranaki Street property enabled CMC to repay all its bank debt at 30 June 2016.

The annual independent revaluation of the Group's property brought about an increase in the revaluation reserve of $7.3m (2015: $1.9m). At balance date Shareholders' Equity was $163.8m (2015: $149.9m).

Dividends
Dividends paid in respect of this year will total 40.0 cents per share (2015: 33.0 cents per share). An interim dividend of 13.0 cents per share was paid on 18 April 2016 and a final dividend of 27.0 cents per share will be paid on 17 October 2016, both dividends being fully imputed. The value of the distributions for this year will be $13.1m (2015: $10.8m) representing 68% (2015: 66%) of the trading profit after tax.

Total shareholder returns over the past five years are shown in the graph on page 2 and the table on page 35. The dividend yield has remained within the range of 8.0% to 12.0% p.a. over the last 10 years.

Directors
The independent directors at 30 June 2016 and the date of this report were F R S Clouston and A J Waugh.

The Company's constitution and the NZX listing rules require one third of the Directors to retire each year. The Directors retiring this year will be Mr J P Gibbons and Mr M J Newman. Both are eligible and are seeking re-election.

Directors' Fees
It has been the Board's practice to review the fees paid to Directors, in total and to individuals, every two years. The last review was undertaken in 2014. At that time there was no change required to the total of $255,000 previously approved in 2012.

Total fees paid in the year to 30 June 2016 were $223,000 (2015: $223,000). Following the review of Directors' fees in 2016, based on market research by two independent sources, the Board has resolved to increase individual annual fees as follows:

• Non-executive directors	$51,500 from $47,000
• Chairman of the Audit & Compliance Committee	$56,150 from $51,700
• Chairman of the Board	$84,500 from $77,000

Based on the current mix of Directors the total annual fees payable will be $244,150 and, as this is within the current approved maximum, no shareholder approval is required.

Director and company disclosures
Information required to be disclosed by the directors and by the Company, to comply with the Companies Act 1993 and the Listing Rules of the New Zealand Stock Exchange, is detailed on pages 32 to 36. A separate Governance Statement is provided on pages 30 and 31.

For the Directors
16 September 2016

J P Gibbons F R S Clouston

Chief Executive's Report

As advised in our Preliminary announcement in August this year's trading result is a record for the Group.

Markets

The new vehicle market in 2016 is running at an all-time record level. On a calendar year basis the industry is up 7% with SUV and Light Commercial being the growth segments.

The continuing strong New Zealand dollar has driven best ever prices and value for the new vehicle market.

Within this growing industry our main brands, Ford and Mazda, have both increased market share. Product is the lifeblood of our industry and drives our brands performance in the marketplace.

Ford Ranger, having achieved leadership in 2015, continues not only to be by far the most popular utility but also the number one selling vehicle in the market.

Ford Mustang, a product that celebrated its 50th anniversary in 2015, arrived in New Zealand in factory built right-hand drive for the first time. You could say that 'true blue' customers had been waiting a lifetime for such a car. The product has delivered success for Ford, satisfaction for customers, dealerships and dealership staff. Smiles all round.

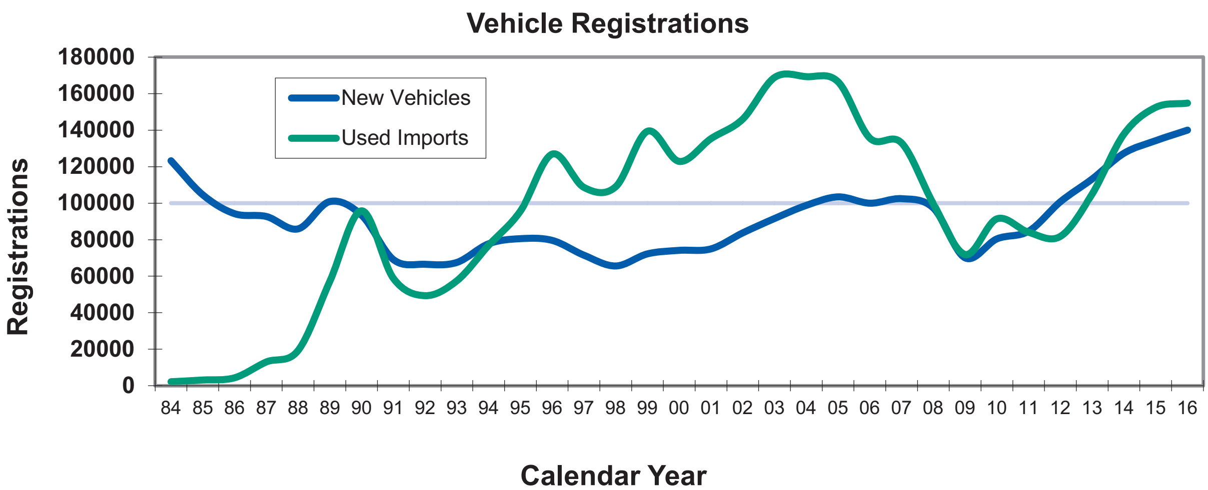
Mazda's product strength is in areas that suit the New Zealand market – light (Mazda2) and small (Mazda3) cars and small (Mazda CX3) and medium (Mazda CX5) SUV's.

A growing market, brand product strength, customer focus, quality staff and strong internal management have boosted performance to levels not seen before. All of the stars have been aligned.

This level of business brings stresses and strains. The vehicle supply and distribution systems (factories that build the vehicles, shipping, domestic car transporters and dealership capacity especially at month end) have all been challenged at times as we all strive to deliver vehicles to customers to meet their expectation.

The heavy trucks industry in 2016 is down slightly on the previous year. However, Southpac Trucks, with its Kenworth and DAF brands have increased their share. Absolute commitment to delivering customer service and backing up the product we sell are the core drivers of Southpac's way of business.

In Southland and Otago our tractor business, Agricentre South, has struggled in an area where tractors are utilised mainly for dairy farming and cropping. At the half year the tractor market in the area was down over 30% from the same period in 2015 and running at less than 50% of 2014 levels.



Health & Safety
The new legislation introduced this year has further upped the ante and focused our minds. Within the Group there has been an increased level of training with particular regard to ensuring we are all aware of and utilise the specific equipment guidelines established in our Workplace Safety Manual. We continue with the external bi-annual audit of our practices at each and every dealership.

Engagement is a core element of a safe workplace environment at all levels of each dealership - leadership from the top and personal responsibility by each and every member of staff to engage in safe work practices. We are in a business that is involved in servicing cars, trucks and tractors and to do the servicing job we need to continue to find practicable ways to be able to do this safely.

Reporting of incidents, accidents and near misses has increased significantly since 1 April as we all respond to the demands of the new legislative environment. The number of incidents that have had to be reported to Worksafe NZ has been low and it has been reassuring to have the regulator, attend and favourably review our practices and responses after having reported an incident.

Dealership Developments
In January South Auckland Motors opened its new airport service facility and, after 12 months of investigation and planning, the dealership is close to committing to a leased development for a service centre in Takanini. Plans are also underway to develop the remainder of the airport site for a pre-delivery workshop for the dealership.

In New Plymouth we created a separate company to represent Hyundai and Isuzu utes. The business recently leased an additional workshop to expand its service base.

Southpac Trucks has been operating in its completed Wiri Station Road and Hobill Avenue facilities for almost 12 months. In August we finalised the purchase of land at Te Rapa, Hamilton for the new Parts & Service operation. The project is in the final stage of consenting with construction scheduled to commence shortly.

The Service Stations that M.S. Motors has managed under licence for BP in Nelson, Blenheim and Richmond for over 15 years were handed back at the expiration of the licence periods spread over the first half of 2016. Two of the three locations were to be completely redeveloped and all three operated by BP directly as part of their national network of 'Wild Bean' sites.

At Timaru we are in the process of selling surplus land at the rear of our property to an adjacent property owner.

In Christchurch a public laneway is planned to cross through the Team Hutchinson Ford dealership that spans the block between Tuam Street and St Asaph Street. We continue to engage with Otakaro (the new government body replacing CERA and the CCDU) along with the Christchurch City Council planners to find a solution to construct the laneway while enabling the dealership to continue its operations.

At Avon City we are working on plans for a refurbishment of the customer facing areas of the dealership.

In the Wellington metropolitan marketplace we continue to plan for how our future business will look and operate when we have to leave our current Taranaki Street facility.

Dunedin City Motors acquired a service business operation in Alexandra to enable them to better service their wide ranging market area. In Queenstown we are investigating property options to expand Macaulay Motors' Frankton based sales and service operation.

As evidenced above, a growing market, in particular in Auckland, brings with it the need to ensure each dealership has the capability and capacity to enable convenient service to their customers.

Trading
In the euphoria of the current unprecedented industry levels the basics of operating dealerships successfully remain paramount.

Leadership from our Dealer Principals and a strong dedicated team of people around them is, as ever, number one priority. We are maintaining controls over the value and age of inventory and asset management together with disciplined trading. In our industry brand market share can carry too much short term emphasis. The need to achieve volume targets and to earn the financial contributions that they bring, creates the temptation to resort to registering unsold vehicles to the dealership which is a challenge dealers manage on a monthly basis.

Outlook
Economic indicators, such as all-time low interest rates and the strong NZD, all support an ongoing buoyant new vehicle industry, albeit in a wider world that has headline risks that could impact on the fundamentals and confidence that enable NZ Inc. to be successful. CMC as a Group will strive to deliver the best outcomes for shareholders, staff, customers and the franchises our dealerships represent.

G D Gibbons
Chief Executive

GROUP DEALERSHIPS

Company name	Chief Executive / Dealer Principal	Franchises	Location	Web address
Southpac Trucks Ltd	Maarten Durent	Kenworth & DAF Heavy Trucks	Manukau City, Rotorua & Christchurch	www.spt.co.nz
South Auckland Motors Ltd	Matthew Newman Michael Tappenden (DP)	Ford & Mazda	Manukau City, Auckland Airport, Botany & Pukekohe	www.southaucklandmotors.co.nz
Southern Autos – Manukau Ltd	Matthew Newman Andrew Craw (DP)	Peugeot, Citroen & Isuzu	Manukau City	www.southernautos.co.nz
Energy City Motors Ltd	Russell Dempster	Ford Hertz Rentals	New Plymouth & Hawera New Plymouth	www.energyford.co.nz
Energy Motors Ltd	Shaun Biesiek (DP)	Hyundai & Isuzu	New Plymouth	www.energyhyundai.co.nz www.energymotorsisuzu.co.nz
Ruahine Motors Ltd	David Wills	Ford	Waipukurau	www.ruahinemotors.co.nz
The Hawkes Bay Motor Company Ltd	James Ridley (DP)	Nissan	Hastings	www.hawkesbaynissan.co.nz
Fagan Motors Ltd	Keith Allen	Ford & Mazda Suzuki Motorcycles	Masterton	www.faganmotors.co.nz www.fagansuzuki.co.nz
Stevens Motors Ltd	Stuart Gibbons	Ford & Mazda	Lower Hutt	www.stevensmotors.co.nz
Capital City Motors Ltd	Matthew Carman	Ford & Mazda	Wellington, Porirua & Kapiti	www.capitalcitymotors.co.nz
Jeff Gray Ltd	Hamish Jacob Matthew Hodgson (DP)	BMW & MINI	Wellington, Palmerston North, & Hastings Christchurch	www.jeffgraybmw.co.nz www.jeffgray.co.nz www.jeffgraymini.co.nz
M.S. Motors (1998) Ltd	Alan Kirby	Ford KIA	Nelson Richmond	www.nelsonford.co.nz www.nelsonkia.co.nz
Hutchinson Motors Ltd	John Hutchinson	Ford	Christchurch	www.thf.co.nz
Avon City Motors Ltd	John Luxton	Ford	Christchurch & Rangiora	www.acford.co.nz
Avon City Motorcycles Ltd	John Luxton	Suzuki & BMW Motorcycles	Christchurch	www.avoncitysuzuki.co.nz
Timaru Motors Ltd	Wayne Pateman	Ford & Mazda	Timaru	www.timarumotors.co.nz
Dunedin City Motors Ltd	Robert Bain	Ford & Mazda	Dunedin, Oamaru & Alexandra	www.dcmotors.co.nz
Macaulay Motors Ltd	Grant Price	Ford & Mazda	Invercargill & Queenstown	www.macaulaymotors.co.nz
Agricentre South Ltd	Grant Price	Case IH Tractors & Kuhn Implements New Holland, Kubota Tractors Norwood Ag Equipment	Invercargill, Gore, Milton & Cromwell Invercargill & Gore	www.agricentre.co.nz

Consolidated Statement of PROFIT OR LOSS
for the year ended 30 June 2016

	Note	2016 $000	2015 $000
Revenue			
Sale of - products		801,081	727,760
- services		64,449	59,876
Other income - interest		180	131
- other		1,527	1,610
Total revenue		**867,237**	**789,377**
Less expenses	1		
Cost of products sold		727,605	661,033
Remuneration of staff		70,082	63,160
Depreciation & amortisation		4,182	4,180
Property occupation costs		7,074	6,333
Marketing, promotion & training costs		6,292	6,503
Other operating costs		19,003	17,721
Interest costs		4,260	5,356
Total expenses		838,498	764,286
Trading profit before tax		28,739	25,091
Less: Income tax expense:	18		
Current		8,358	7,582
Deferred		68	75
		20,313	17,434
Less: Non-controlling interest		1,106	1,108
Trading profit after tax		**19,207**	**16,326**
Fair value revaluation of property		662	(7)
Deferred tax on property depreciation	18	141	1,016
Realised gain on sale of property		1,072	-
Fair value revaluation of investments		397	262
Profit for the year attributable to:			
Shareholders		21,479	17,597
Non-controlling interest		1,106	1,108
PROFIT FOR THE YEAR		**22,585**	**18,705**

Statistics per share

	Note	2016	2015
Basic & diluted earnings per share	14		
Profit for the year		65.7 cents	53.8 cents
Trading profit after tax		58.7 cents	49.9 cents
Dividend per share		40.0 cents	33.0 cents
Dividend declared for the year ($000)		13,078	10,789
Net tangible assets per share (pre dividend)		$4.96	$4.53

The statement of accounting policies and the accompanying notes form part of the financial statements

Consolidated Statement of COMPREHENSIVE INCOME
for the year ended 30 June 2016

	Note	2016 $000	2015 $000
Profit after tax for the year		22,585	18,705
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Property revaluation reserve			
Fair value movement		7,318	1,946
Deferred tax	18	(1,457)	(823)
Items that may be reclassified subsequently to profit or loss:			
Foreign exchange reserve			
Movement in cashflow hedge		(4,274)	3,432
Deferred tax movement	18	1,196	(961)
Other comprehensive income for the year		2,783	3,594
Total comprehensive income for the year		25,368	22,299
Attributable to:			
Shareholders		24,724	20,820
Non-controlling interest		644	1,479
		25,368	22,299

Consolidated Statement of CHANGES IN EQUITY
for the year ended 30 June 2016

Note 17

	Note	2016 $000	2015 $000
Total equity at beginning of year		152,576	142,620
Comprehensive income			
Profit for the year		22,585	18,705
Other comprehensive income		2,783	3,594
Total comprehensive income		25,368	22,299
Dividends paid to shareholders	16	(10,789)	(11,443)
Dividend paid to non-controlling interest		(1,350)	(900)
Total equity at end of year		165,805	152,576

Consolidated Statement of CASH FLOWS
for the year ended 30 June 2016

	Note	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers		870,801	787,117
Interest received		180	131
Dividends received		147	147
Payments to suppliers & employees		(821,232)	(776,369)
Interest paid		(4,260)	(5,355)
Income taxes paid		(7,394)	(8,035)
Net cash flow from operating activities	21	38,242	(2,364)
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		16,143	923
Purchase of property, plant & equipment		(7,426)	(13,054)
Purchase of intangible assets		-	(750)
Purchase of investments		-	(34)
Net cash flow from investing activities		8,717	(12,915)
Cash flows from financial activities			
(Decrease) / Increase in borrowings		(24,683)	23,588
(Decrease) / Increase in deposits		(516)	2,686
Dividends paid to shareholders		(12,139)	(12,343)
Net cash flow from financing activities		(37,338)	13,931
Net increase / (decrease) in cash held		9,621	(1,348)
Opening cash brought forward		5,781	7,129
Closing cash balance		15,402	5,781

The statement of accounting policies and the accompanying notes form part of the financial statements

Consolidated Statement of FINANCIAL POSITION
as at 30 June 2016

	Note	2016 $000	2015 $000 (Restated)	2014 $000 (Restated)
Shareholders' equity	17			
Share capital	15	15,968	15,968	15,968
Retained earnings		111,344	94,828	88,674
Property revaluation reserve		37,307	37,272	36,149
Foreign exchange cashflow hedge reserve		(797)	1,819	(281)
Total shareholders' equity		163,822	149,887	140,510
Non-controlling interest		1,983	2,689	2,110
Total equity	17	165,805	152,576	142,620
Current liabilities				
Bank borrowings	9	-	29,900	22,400
At-call deposits	10	17,531	18,047	15,362
Trade & other payables	8	36,907	49,252	42,252
Vehicle floorplan finance	3	59,942	54,725	38,637
Financial liabilities – credit contracts	5	4,996	5,819	6,743
Tax payable		3,545	2,581	3,034
Financial derivatives – foreign exchange	24	1,302	-	507
Total current liabilities		124,223	160,324	128,935
Non-current liabilities				
Financial liabilities – credit contracts	5	6,433	9,207	10,261
Deferred tax	18	4,457	4,271	3,428
Total non-current liabilities		10,890	13,478	13,689
Total equity and liabilities		300,918	326,378	285,244
Current assets				
Cash & bank accounts	11	15,402	5,781	7,129
Property held for sale	7	350	14,128	-
Trade & other receivables	4	32,816	36,707	35,029
Inventory	2	138,752	159,966	131,111
Financial derivatives – foreign exchange	24	-	2,973	-
Financial assets – credit contracts	5	4,891	5,669	6,575
Total current assets		192,211	225,224	179,844
Non-current assets				
Financial assets – credit contracts	5	6,433	9,207	10,261
Intangible assets	12	1,578	1,678	1,028
Investments	13	1,508	1,111	815
Property, plant & equipment	6	99,188	89,158	93,296
Total non-current assets		108,707	101,154	105,400
Total assets		300,918	326,378	285,244

For the directors
16 September 2016

J P Gibbons

F R S Clouston

The statement of accounting policies and the accompanying notes form part of the financial statements

Statement of accounting policies for the year ended 30 June 2016

REPORTING ENTITY

The financial statements presented are for The Colonial Motor Company Limited ("The Company") and its subsidiaries ("The Group"). The Company is an FMC Reporting Entity under the Financial Markets Conduct Act 2013. Where an FMC Reporting Entity prepares consolidated financial statements, parent company disclosures are not required and have not been included in these financial statements.

The Group is a Tier 1 For Profit Reporting Entity as set out in the External Reporting Board's Accounting Standards Framework. The Colonial Motor Company Limited is a New Zealand registered company listed on the New Zealand Stock Exchange.

The Group's principal activity is operating franchised motor vehicle dealerships.

BASIS OF PREPARATION

Statement of compliance: The Group financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the Financial Reporting Act 2013 and the Companies Act 1993. They also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements were authorised for issue by the Directors on 16 September 2016.

Presentation currency: These financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency, rounded to the nearest thousand.

Critical accounting estimates and judgements: The Group makes estimates and assumptions concerning the future. They are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

Estimates that have a significant risk of causing a material adjustment to the carrying amount of the assets and liabilities are detailed in relevant notes to the financial statements.

Measurement base: The financial statements have been prepared on an historical cost basis, modified by the revaluation of certain assets and liabilities to fair value through profit or loss.

ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of consolidation: Subsidiaries are entities controlled by the Company. Control requires the investor to have exposure or rights to variable returns and the ability to affect those returns through power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests, presented as a part of equity, represent the portion of the profit or loss and net assets of subsidiaries that is not held by the Group based on their respective ownership interests.

Intra-group balances, and any income and expenses from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Statement of accounting policies for the year ended 30 June 2016

Revenue recognition: Revenue is measured at the fair value of the consideration received or receivable. It is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Amounts disclosed as revenue are net of returns, trade allowances and rebates. The following specific recognition criteria must also be met before revenue is recognised:

Sale of products: Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have passed to the buyer and can be reliably measured. Risk and rewards are considered to have passed to the buyer generally upon the delivery of goods to the customer.

Rendering of services: Revenue from the rendering of a service is recognised in the period in which the service is provided.

Rental income arising from premises rental is accounted for on a straight line basis over the lease term.

Interest Income comprises interest on funds invested. Interest income is recognised in profit or loss as it accrues using the effective interest rate method.

Trading profit: Trading profit is defined as Group profit excluding fair value adjustments of non-trading assets, plus associated tax and material non-recurring items.

Impairment: The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any objective evidence of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised as an expense in the statement of profit or loss.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing fair value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of the time value of money and risks specific to that asset.

In respect of all assets (except goodwill and intangibles with indefinite useful lives) an impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

Goods & Services Tax (GST): The financial statements are prepared net of GST with the exception of receivables and payables which are stated including GST.

Change in accounting policy: There has been a change in the accounting policy relating to new vehicles that are funded by bailment arrangements where ownership of the vehicles rests with the finance companies until immediately before sale. Previously, bailment arrangements have been 'off balance sheet'. The vehicles owned by the finance companies have not been included in the Group's inventory and no liability has been shown to the finance companies. The value of the vehicles was disclosed in the notes to the financial statements.

The accounting policy has changed to recognise the commercial substance of bailment arrangements so that, at reporting date, new vehicles subject to bailment arrangements are included in inventory and a liability to the same value has been recognised under vehicle floorplan finance. The change affects only balances in the statement of financial position and has had no impact on profit or loss in any period.

The change in accounting policy has required the disclosure of an additional comparative period in the statement of financial position and where balances have been restated. Details of the restatement of inventory and vehicle floorplan finance are provided in notes 2 and 3 respectively.

Notes to the Consolidated FINANCIAL STATEMENTS
for the year ended 30 June 2016

1 Expenditure

			2016 $000	2015 $000
Expenditure in the statement of profit or loss includes:				
Auditor's remuneration	-	audit fees	421	410
	-	prospectus audit	5	5
	-	other services	-	7
Total auditor's remuneration			426	422
Operating lease expense			3,089	3,045
Directors' fees			223	223
Bad debts written off			131	165
Donations			5	19
Superannuation contributions				
Contributions to superannuation schemes are expensed when incurred.				
CMC Staff Superannuation Fund			736	739
KiwiSaver			1,126	938
Movement in impairment allowance for:				
Parts inventory obsolescence (increase) / decrease			192	(272)
Doubtful debts			(45)	17
Credit contracts (increase) / decrease			(31)	(18)

2 Inventory

	2016 $000	2015 $000 (Restated)	2014 $000 (Restated)
Vehicles & implements	122,142	143,558	117,546
Parts, accessories, workshop, fuels & gases	18,747	18,300	15,825
Impairment allowance for parts obsolescence	(2,137)	(1,892)	(2,260)
	138,752	159,966	131,111

Valuation of inventory: New and used vehicles have been valued at the lower of cost or net realisable value. Parts, accessories, workshop stocks, fuels and gases are recognised at cost, using where applicable, the first in first out method. Cost includes expenditure incurred in acquiring the inventory and bringing it to the existing location and condition. Due allowance has been made for obsolete and slow moving stock.

Inventory, particularly of vehicles, is reviewed, on a transaction by transaction basis, as part of normal commercial trading. Estimates and judgement are required to ensure that carrying values do not exceed net realisable value at reporting date.

Bailment facilities

Most of the subsidiaries have bailment facilities with finance companies to provide funding for new vehicles. The main finance company is UDC Finance Limited, a member of the ANZ Banking Group. Under these facilities the finance companies own the vehicles that are placed in the control of the subsidiaries as bailees and are available to display for sale to the public in the dealerships. The subsidiaries pay bailment fees (similar to interest) for the use of the vehicles. The bailment agreements are subject to financial limits. The vehicles are purchased from the finance companies when they are sold to customers.

If the subsidiaries breach the bailment agreements, the finance companies retain the right to repossess and sell the vehicles and the subsidiaries must meet any shortfall of the sale proceeds from the purchase price of the vehicles.

2 Inventory - continued

Previously, bailment arrangements have been 'off balance sheet'. The accounting policy has changed to recognise the commercial substance of bailment arrangements so that, at reporting date, new vehicles subject to bailment arrangements are included in inventory. The change in accounting policy has resulted in the restatement of inventory as follows.

	2016 $000	2015 $000 (Restated)	2014 $000 (Restated)
Inventory as previously disclosed	90,080	115,941	92,474
Inventory under bailment arrangements - change in accounting policy.	48,672	44,025	38,637
Total inventory restated	138,752	159,966	131,111

Parts inventory is reviewed regularly for slow-moving or obsolete stock. At each reporting date an impairment allowance is recognised based on the age of stock and historical evidence of inventory held for a similar timeframe. The movement in the parts obsolescence allowance is as a result of a combination of the realisation and scrapping of aged stock during the reporting period.

Total Inventory write down including parts, parts obsolescence and vehicles for the year ended 30 June 2016 was $0.708m (2015: $0.234m).

3 Vehicle floorplan finance

	2016	2015	2014
Vehicle floorplan facilities	11,270	10,700	-
Bailment arrangements	48,672	44,025	38,637
Total vehicle floorplan finance	59,942	54,725	38,637

When not purchased outright, new vehicles are funded by bailment arrangements (see note 2) or under vehicle floorplan facilities provided by the distributor. In the latter case, ownership of the vehicles is transferred on delivery but payment is delayed generally until the vehicle is sold.

Following the change in accounting policy noted above, bailment arrangements are now included in vehicle floorplan finance whereas previously only distributor floorplan facilities were included in this category of liabilities.

4 Trade and other receivables

	2016 $000	2015 $000
Trade receivables	26,803	31,887
Impairment allowance for doubtful debts	(53)	(97)
	26,750	31,790
Other receivables	5,072	4,645
Prepayments	994	272
	32,816	36,707

The carrying value of trade receivables and prepayments is considered to be their fair value. Bad debts are written off as soon as they become evident and amounted to $0.101m (2015: $0.113m). In addition, all receivables are reviewed for indications of impairment and an allowance maintained to cover accounts where there is objective evidence that the amount may not be able to be collected. The Group considers that no material concentration of credit risk exists with trade receivables due to the spread over a large number of customers.

Recoverability of receivables
Reliance is placed on credit control measures to minimise bad debts but estimates and judgement based on past experience are required in determining the level of possible future impairment of all types of receivables. Amounts owed by customers included in 'Financial assets and liabilities – credit contracts' are recoverable over a number of years and involve estimates over longer periods

4 Trade and other receivables - continued

	2016 $000	2015 $000
An analysis of trade receivables that are past due at 30 June 2016 is as follows:		
Parts & Service Receivables		
Total outstanding	10,950	11,134
Overdue (not impaired) 30 – 90	2,082	1,987
Overdue (not impaired) 90 Day +	270	280
% Current (not yet due)	79%	80%
% overdue 90 days	2%	3%
Impaired (written off during the year)	101	113
Vehicle receivables		
Total outstanding	15,853	20,753
Overdue (not impaired)	2,202	5,553
Impaired	-	-
Impaired (written off during the year)	-	-
Impairment allowance		
Opening balance	97	80
Bad debts written off	(101)	(113)
Impairment allowance movement	57	130
Closing balance	53	97

5 Financial asset & financial liabilities – credit contracts

Dealerships arrange finance for customers to buy vehicles by acting in an agency style capacity with a number of finance companies. Before the customers enter into the finance agreements, checks are made that the customers meet the creditworthiness and other criteria of the finance companies. Dealerships make the initial loans to the customer but instantaneously assign them to the finance company.

Arrangements with Motor Trade Finance Limited (MTF) differ from the other finance companies. MTF retains the right of recourse to the dealership if a particular customer defaults on their payments. Accounting for the MTF financing agreements results in creating a receivable from the customer (which is collected by MTF due to the assignment) and an equal and opposite liability for the amount that may become payable to MTF if the customer defaults. There is a risk if customers fail to make the necessary repayments that the receivable will not be recoverable and the liability will remain payable to MTF. This risk is mitigated by the value of the related vehicle which may be repossessed and sold.

At the reporting date the Group had outstanding vehicle financing agreements with MTF in potential liabilities and receivables of $11.428m before impairment allowance (2015: $15.026m) with the following repayment schedule:

Repayments are due from financing agreements over the following periods

	2016	2015
Up to 1 year	4,996	5,819
1 to 2 years	3,720	4,843
2 to 3 years	2,007	2,998
3 to 4 years	611	1,211
4 to 5 years	94	155
Total	11,428	15,026
Impairment allowance	(104)	(150)
Carrying value of receivable at reporting date	11,324	14,876
Number of loans	782	1,008
Value of impaired accounts written off in the year ($'000)	30	52
Actual arrears/amounts past due at 30 June ($'000)	41	21
Arrears as % of total	0.36%	0.14%
Total value of accounts in arrears at 30 June ($'000)	717	920
Accounts in arrears as % of total	6.33%	6.18%

In the normal course of business the receivable and liability for each finance deal reduce in parallel as customers make routine repayments. Factors that mitigate the risk of customer default include the credit checks that are carried out when the finance is arranged, timely credit control practices and the number of outstanding loans means there is no concentration of credit risk on a restricted number of debtors. The Group and MTF require security over the vehicles that are financed so that, if other measures fail, the vehicles can be sold to offset bad debts.

5 Financial asset & financial liabilities – credit contracts - continued

If customers default and the sale proceeds of the vehicle do not cover the outstanding balance, the deficit is recognised as an expense in profit or loss. The balances are routinely reviewed for impairment and an allowance is made for amounts that are unlikely to be recovered. The impairment allowance is calculated as a percentage of net amounts outstanding under the credit contracts and is based on historical data of contracts in default and impaired.

6 Property, plant & equipment

	Land & buildings $000	Furniture, fittings & equipment $000	Service vehicles $000	Total $000
Cost at 30 June 2014	64,905	20,255	4,754	89,914
Accumulated depreciation	(12,337)	(14,280)	(2,187)	(28,804)
Revaluation	32,186	-	-	32,186
Net book value at 30 June 2014	84,754	5,975	2,567	93,296
Additions	7,678	3,439	2,280	13,397
Reclassification	(14,128)	-	-	(14,128)
Disposals	(23)	(245)	(998)	(1,266)
Depreciation	(1,229)	(1,895)	(956)	(4,080)
Movement in revaluation	1,939	-	-	1,939
Net book value at 30 June 2015	78,991	7,274	2,893	89,158
Cost at 30 June 2015	61,988	21,557	5,090	88,635
Accumulated depreciation	(11,296)	(14,283)	(2,197)	(27,776)
Revaluation	28,299	-	-	28,299
Net book value at 30 June 2015	78,991	7,274	2,893	89,158
Additions	3,968	1,939	1,519	7,426
Disposals	(562)	(290)	(658)	(1,510)
Depreciation	(1,280)	(1,714)	(871)	(3,865)
Movement in revaluation	7,979	-	-	7,979
Net book value at 30 June 2016	89,096	7,209	2,883	99,188
Comprised of:				
Cost at 30 June 2016	65,218	21,992	5,195	92,405
Accumulated depreciation	(12,400)	(14,783)	(2,312)	(29,495)
Revaluation	36,278	-	-	36,278
Net book value at 30 June 2016	89,096	7,209	2,883	99,188

All land & buildings were independently valued at reporting date by QV Asset & Advisory to comply with Property Institute New Zealand Professional Practice Standards and International Valuation Standards. The principal valuer was Andrew Parkyn B Com (VPM) PG Dip Com SPINZ ANZIV Registered Valuer.

All property has been classified as level 2 in the fair value hierarchy specified in NZ IFRS 13 “Fair Value Measurement” because, although there is an active and open market for commercial properties, each property is unique in its location, size, age, condition and many other factors.

All property was valued at its highest and best use by applying a direct sales comparison approach which derives fair values by comparing the property to similar assets that have recently sold on the open market.

The revaluation of property to the latest valuation resulted in a gain through profit or loss of $0.7m (2015: nil).

Land and buildings owned by the Company are categorised as property, plant & equipment because they are owned specifically for use in the revenue generating operations of its subsidiaries.

Net book value of land & buildings at the reporting date includes capital work in progress of $0.2m (2015: $2.0m).

6 Property, plant & equipment - continued

Property, plant & equipment other than land and buildings are carried at cost less accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the asset. Software that is integral to the functionality of the related equipment is capitalised as part of the asset. Land and buildings, other than properties for sale, are revalued annually to fair value based on independent professional valuations.

Any revaluation surplus is credited to the asset revaluation reserve unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss. In that case, the surplus is credited to profit or loss to the extent of the decrease previously charged.

Any revaluation deficit is recognised in profit or loss unless it directly offsets a previous surplus in the same asset in the property revaluation reserve.

Any accumulated depreciation at revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Land is not depreciated. The economic life of buildings has been assessed at between 33 and 100 years and they have been depreciated accordingly. Other plant and equipment have been depreciated over their estimated useful lives on an accounting basis that the Group considers best reflects the decline in the economic service potential of each class of assets. The general rate bands are shown below:-

Service vehicles	18 - 36%	of Diminishing Value
Furniture, fittings and equipment	7.5 - 60%	of Diminishing Value

Carrying values and depreciation rates are reviewed at each reporting date to ensure depreciation rates are appropriate.

7 Property held for sale

Property subject to sale agreements at reporting date are included in current assets at the lower of carrying value and fair value less costs to sell.

At 30 June 2016 an area of bare land that was surplus to requirements on the property owned by the Company at Washdyke in Timaru was subject to a conditional agreement for its sale. It has therefore been reclassified from property, plant & equipment to property held for sale.

Similarly, at 30 June 2015 the dealership property on the corner of Taranaki and Jessie Streets in Wellington was subject to an unconditional contract for sale with settlement on 1 September 2015.

8 Trade & other payables

	2016 $000	2015 $000
Trade payables	20,921	35,881
Employee benefits	6,450	5,815
Other payables	9,536	7,556
	36,907	49,252

Trade and other payables are stated at cost.

Employee benefits: The Group provides for benefits accruing to employees for salaries and wages, annual leave and short term incentives under contractual obligation or when it is probable that payment will occur and they can be reliably measured.

9 Bank borrowings

Bank borrowings	-	29,900

The Group has wholesale facilities with BNZ, ANZ and Westpac, three highly-respected international registered trading banks, which enable it to borrow at any time amounts up to $56.5m in total. Wholesale borrowing is transacted only by the Company. Its indebtedness is guaranteed by its trading subsidiaries to the full extent of the facilities. All borrowing at the reporting date was repayable at call.

The agreements with each of the banks are very similar and require the Group to meet financial criteria based on ratios derived from its financial statements. The Group also pledges to the banks not to grant security over any of its assets i.e. a “negative pledge”. The bank facilities are reviewed annually by the banks and have terms that extend up to three years from the date of each review.

Borrowing costs: Interest expense comprises interest on deposits, bank borrowings and bank overdraft facilities. Interest costs are recognised using the effective interest rate method and expensed in the period they are incurred.
See note 19 (c) for interest rate disclosures.

10 At call deposits

The Company offers for subscription unsecured call debt securities ("Deposits"). Acceptance of Deposits is restricted to shareholders, employees and their associates.

At the reporting date the Deposits were constituted by, issued under and are described in a trust deed dated 21 September 1994 as amended by various Deeds of Modification and Supplemental Deeds all made between the Company, its guaranteeing subsidiaries (as therein defined) and New Zealand Permanent Trustees Limited as trustee for the holders of Deposits (“the Depositors"). Under the terms of the Trust Deed the Guaranteeing Subsidiaries unconditionally guarantee, jointly and severally the repayment of the deposits together with interest thereon by the Company and by each of the other Guaranteeing Subsidiaries. Deposits were accepted under the terms of a prospectus issued by the Company and registered on 10 November 2015 with the New Zealand Companies Office.

Transition to the new regime being introduced by the Financial Markets Conduct Act 2013 will be effective from 21 September 2016. The replacing governance documents and product disclosure statement will be available on the new Disclose Register following transition.

The maximum amount of Deposits on offer at 30 June 2016 was $20.0m. Actual Deposits at 30 June 2016 were $17.5m (2015: $18.0m).

Interest is payable on Deposits at rates that vary from time to time as disclosed to the Depositors on the application form or as subsequently notified to Depositors in writing. The interest rate applicable at 30 June 2016 was 3.25% (2015: 4.25%).

11 Cash and bank accounts

	2016 $000	2015 $000
Bank accounts in funds	15,462	6,624
Bank accounts in overdraft	(60)	(843)
Net cash and bank balance	15,402	5,781

These balances include all cash and cash equivalents.

The Company guarantees the amounts owing by its subsidiaries under overdraft facilities and the subsidiaries guarantee the indebtedness of the Company. The aggregate limit on bank overdrafts is $7.3m (2015: $6.9m).

12 Intangible assets

	Intangibles with indefinite lives		Intangibles with finite lives	Total
	Goodwill $000	Franchise rights $000	Customer databases $000	$000
Balance at 30 June 2015	1,028	450	200	1,678
Impairment loss during the year	-	-	-	-
Amortisation during the year	-	-	(100)	(100)
Balance at 30 June 2016	1,028	450	100	1,578
Cost	1,028	450	300	1,778
Accumulated amortisation & impairment	-	-	(200)	(200)
Balance at 30 June 2016	1,028	450	100	1,578

Intangible assets consist of goodwill and other intangibles. Goodwill is recognised on acquisitions of subsidiaries or purchases of business assets and represents the excess of the acquisition costs over the fair value of the individually identified acquired assets and liabilities. Other intangible assets include franchise rights and customer databases acquired in a business combination and are recognised at their fair values.

Intangible assets that are considered to have identifiable useful lives are amortised on a straight line basis over those useful lives. Goodwill and intangibles with indefinite useful lives are subject to impairment testing annually or when events indicate that the carrying amount may not be recoverable and are carried at cost less accumulated impairment losses.

12 Intangible assets - continued

The carrying value of intangible assets was reviewed at 30 June 2016 and considered to be fair value.

The value of intangibles is compared with the "value in use" of the affected dealerships, which have been identified as the cash generating units associated with the intangibles. Impairment of the intangible assets is recognised if there is considered to be a permanent reduction of the "value in use".

Impairment testing calculations require the use of estimates and assumptions. The calculations of "value in use" are based on the actual results for the past five reporting periods together with the projected results for the next five reporting periods. It was assumed that there would be no real growth during the period of the forecasts.

Key assumptions relate to the general economic outlook, the level of the new and used vehicle industries and our business unit performance in this environment.

The discount rate used in completing the cash flow forecast to assess value in use was 11.3% (2015: 10.1%).

Management considers that any reasonable change in a key assumption used in the determination of the value in use would not cause the carrying amount of intangible assets to exceed their recoverable amount.

13 Investments

	2016 $000	2015 $000
Shares in Motor Trade Finance Limited (MTF)	1,474	1,077
Other	34	34
Total	1,508	1,111

MTF shares are traded in a quoted but restricted market and are categorised as level two in the fair value hierarchy.
Shares are carried at fair value with changes in value recognised through profit or loss.

14 Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit after tax attributable to shareholders by the weighted average number of shares outstanding during the year.

There were no dilutive potential ordinary shares outstanding at year end.

	2016	2015
Weighted average number of shares	32,694,632	32,694,632
Trading profit after tax ($000)	19,207	16,326
Profit for the year attributable to shareholders ($000)	21,479	17,597
Basic and diluted earnings per share on:		
Profit attributable to shareholders	65.7 cents	53.8 cents
Trading profit after tax	58.7 cents	49.9 cents

15 Share capital

	2016	2015
Total share capital	15,968	15,968
	Number of shares	
Number of ordinary shares on issue	32,694,632	32,694,632

All shares on issue are fully paid up and have no par value.
All ordinary shares have equal voting rights and share equally in dividends and any surplus on winding up.

16 Dividends

			2016 $000	2015 $000
Dividends paid during the year				
Final for the previous year	Paid 19 October 2015	20.0 cps	6,539	7,193
Interim for the current year	Paid 18 April 2016	13.0 cps	4,250	4,250
Amount provided in the financial statements			10,789	11,443

17 Changes in equity

	Share capital	Property revaluation reserve	Foreign exchange cashflow hedge reserve	Retained earnings	**Total attributable to shareholders**	Non-controlling interest	**Total equity**
	$000	$000	$000	$000	**$000**	$000	**$000**
Balance at 30 June 2014	15,968	36,149	(281)	88,674	**140,510**	2,110	**142,620**
Dividends paid	-	-	-	(11,443)	**(11,443)**	(900)	**(12,343)**
Total transactions with shareholders	-	-	-	(11,443)	**(11,443)**	(900)	**(12,343)**
Profit after tax for the year	-	-	-	17,597	**17,597**	1,108	**18,705**
Other comprehensive income							
Property revaluation reserve							
Fair value movement	-	1,946	-	-	**1,946**	-	**1,946**
Deferred tax effect	-	(823)	-	-	**(823)**	-	**(823)**
Foreign exchange cashflow hedge reserve							
Movement in hedged items	-	-	2,917	-	**2,917**	515	**3,432**
Deferred tax effect	-	-	(817)	-	**(817)**	(144)	**(961)**
Total comprehensive income	-	1,123	2,100	17,597	**20,820**	1,479	**22,299**
Balance at 30 June 2015	15,968	37,272	1,819	94,828	**149,887**	2,689	**152,576**
Dividends paid	-	-	-	(10,789)	**(10,789)**	(1,350)	**(12,139)**
Total transactions with shareholders	-	-	-	(10,789)	**(10,789)**	(1,350)	**(12,139)**
Profit after tax for the year	-	-	-	21,479	**21,479**	1,106	**22,585**
Other comprehensive income							
Property revaluation reserve							
Fair value movement	-	7,318	-	-	**7,318**	-	**7,318**
Transfer on sale of property	-	(5,826)	-	5,826	**-**	-	**-**
Deferred tax effect	-	(1,457)	-	-	**(1,457)**	-	**(1,457)**
Foreign exchange cashflow hedge reserve							
Movement in hedged items	-	-	(3,633)	-	**(3,633)**	(641)	**(4,274)**
Deferred tax effect	-	-	1,017	-	**1,017**	179	**1,196**
Total comprehensive income	-	35	(2,616)	27,305	**24,724**	644	**25,368**
Balance at 30 June 2016	15,968	37,307	(797)	111,344	**163,822**	1,983	**165,805**

Reserves: The property revaluation reserve arises on the revaluation of land and buildings. Where revalued land or buildings are sold, the portion of the revaluation reserve that relates to the asset, and is effectively realised, is transferred directly to retained earnings.

The foreign exchange cashflow hedge reserve comprises the cumulative balance of adjustments to uncompleted transactions that qualify as effectively hedged.

18 Income tax expense

	2016 $000	2015 $000
Profit after tax for the year	22,585	18,705
Components of income tax expense		
Current tax expense	8,358	7,582
Deferred tax movement on temporary differences	68	75
Deferred tax on property depreciation	(141)	(1,016)
Total tax expense	8,285	6,641
Profit before tax	30,870	25,346
Expected tax charge at the NZ domestic tax rate of 28%	8,644	7,097
Tax adjustments for		
Non-deductible expenses	317	(87)
Tax exempt income	(597)	637
Changes in unrecognised temporary differences	317	(65)
Movement in deferred tax	(75)	(941)
Prior year adjustment	(321)	-
Actual tax expense	8,285	6,641
Deferred tax		
Opening deferred tax liability	(4,271)	(3,428)
Movement through profit or loss	75	941
Movement through property revaluation reserve	(1,457)	(823)
Movement through foreign currency reserve	1,196	(961)
Closing deferred tax liability	(4,457)	(4,271)
Deferred tax assets and liabilities are attributable to the following:		
Trade and other payables	537	56
Trade and other receivables	15	23
Employee benefits	964	1,130
Inventories	197	552
Financial derivatives	364	(832)
Impairment allowance for finance bad debts	29	42
Property, plant and equipment	(1,790)	(327)
Building depreciation rule change	(4,773)	(4,915)
	(4,457)	(4,271)

The Group has no deferred tax on unused tax losses to be utilised against future taxable profits. (2015: Nil)

Income tax expense comprises current and deferred tax. Current tax is the tax payable on taxable profit for the period using the existing tax rates.

The calculation of deferred tax uses the liability approach which recognises deferred tax assets and liabilities based on differences between the accounting and tax values of specific items in the statement of financial position.

Deferred tax assets and liabilities are carried
- at the tax rates expected to apply when the assets are recovered or liabilities settled.
- on the basis that the Group expects future profits to exceed any reversal of existing temporary differences.

Income tax relating to items recognised directly in the statement of comprehensive income are also recognised in the statement of comprehensive income and not in the statement of profit or loss.

	2016 $000	2015 $000
Imputation credit account		
Imputation credits available for use in subsequent reporting periods	14,828	13,341

19 Financial instruments

Financial instruments primarily comprise cash at bank, receivables, payables, credit contracts, forward exchange contracts, shares in companies, borrowings and loans. All financial instruments are recognised in the financial statements initially at fair value plus any directly attributable transaction costs. Subsequent measurement is detailed under the accounting policy of each specific financial instrument. A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers substantially all the risks and rewards of the asset to another party.

19(a) Fair value

The following methods and assumptions are used to estimate the fair value of each major class of financial instrument for which it is practical to estimate that value.

- Bank balances, deposits, creditors.
  The carrying amount is equivalent to a fair value.
- Shares in other companies
  The carrying amount is based on the most recent market evidence for the value of those shares and is considered to be at fair value. The shares are traded in a quoted but restricted market and are categorised as level two in the fair value hierarchy.
- Receivables
  The carrying amount is the recoverable amount for the receivable and is also considered to be at fair value.
- Credit Contracts
  The carrying value is the total of the net settlement value of each credit contract agreement.

19(b) Credit risk

Financial instruments which potentially subject the Group to concentrations of credit risk consist principally of bank balances, deposits, receivables and credit contracts.

The carrying amounts of financial assets represent the Group's maximum credit exposure.

The Group places its cash and short term investments with high credit quality financial institutions (as determined by independent credit rating agencies) and limits the amount of credit exposure to any one financial institution.

The Group performs credit evaluations on all customers requiring credit and generally does not require collateral or other security to support financial instruments with credit risk.

Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers included in the Group's customer base.

The rate of impairment of amounts receivable under credit contracts (note 4) is low. If the incidence of recourse requiring balances to be written off were to increase by 0.1% it would increase the annual amount written off through profit or loss by $0.01m (2015: - $0.02m).

19(c) Interest rate risk

The Group is not exposed to any specific interest rate risk other than normal interest rate movements on a daily basis in the New Zealand market. At each reporting date the specific rates were:

	2016	2015
Bank overdraft	5.39% - 11.65%	6.40% - 13.90%
At-Call Deposits	3.25% - 4.00%	4.00% - 4.25%
Bank facility	3.15% - 4.45%	4.15% - 5.45%

The at-call bank borrowings are unsecured and fall within the agreed committed facility requirements in place with the Group's bankers. These facilities have maturity dates ranging from March 2016 to December 2017 and are expected to be renewed in the normal course of business. The facilities can be drawn on or repaid at any time and interest rates are variable. The carrying value of these loans is considered to be the fair value.

Interest sensitivity
The effect of a movement of 1% in interest rates would be to change finance costs in profit or loss by $0.175m per annum. (2015: $0.479m).

19 Financial instruments - continued

19(d) Foreign currency risk

The Group enters into fixed rate foreign exchange contracts to create a cash flow hedge for the purchase of trucks on a contract-by-contract basis with firm customer orders and for units ordered for stock. Other short term transactions are covered by forward exchange contracts and accounted for at that rate.

Foreign currency transactions are translated into the functional currency using the actual exchange rate at the date of the transaction.

Foreign exchange contracts outstanding at each reporting date are adjusted to fair value (marked to market). The market rates used at reporting date to calculate this adjustment are supplied by the bank through which the contracts were established. Adjustments to transactions that qualify as being effectively hedged are recognised through the statement of comprehensive income and those that do not so qualify are recognised through profit or loss. The adjustment to fair value is recorded in the statement of financial position as a financial derivative asset or liability.

The principal values of forward exchange contracts entered into and outstanding at each reporting date were denominated in the following currencies. The values are stated in New Zealand dollars.

Currency	2016 $000	2015 $000
Australian dollars	24,686	8,013
Euros	22,774	21,856
United States dollars	-	-
Total	47,460	29,869

Due to the close association between foreign currency commitments for imported goods, their selling price and the underlying forward exchange contracts, it is estimated that any change in the New Zealand dollar exchange rates against the above currencies would have had minimal impact on the result for the year ended 30 June 2016 or 30 June 2015.

19(e) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual payment obligations. The Group monitors its cash on an ongoing basis to ensure it has sufficient credit facilities to meet its obligations.

The Group obtains funding for its operations from several sources. In addition to its shareholders' funds (made up of share capital and reserves), funding is also provided by depositors through the At-Call Deposit scheme, from banks and other financial institutions.

There is a risk that the banks may reduce or withdraw the facilities or will be unable to provide the level of funding required. The Group would then be required to obtain alternative funding which could cost more. If no alternative funding was available, the consequences would disrupt cash flows and potentially it may not be able to continue to pay suppliers and staff or repay depositors.

If the finance companies were to withdraw the bailment facilities described in note 3 or were unable to fund as many vehicles as required, the Group would have to seek alternative methods of funding the vehicles. This could involve bailment agreements with other providers or additional bank funding to purchase the vehicles outright. The consequences could include increased costs and disruption to the supply of new vehicles for sale.

The Group mitigates its funding risk by adopting prudent financial management practices (such as closely monitoring its cash flows, regularly checking compliance with the financial ratios) and by maintaining open and honest relationships with the banks and finance companies.

The extent of the bank facilities is disclosed in note 9 and bailment facilities in note 3.

19(f) Maturity analysis

Financial liabilities in the form of At-Call Deposits and bank borrowings are payable on call. Trade and other payables are due within one year. This arrangement is unchanged from 2015.

The amounts payable, including interest, by customers under the financial assets – credit contracts have the following repayment profile which is the maximum amount the Group may be required to pay if subject to recourse under its contractual obligations.

	2016 $000	2015 $000
Amount due in		
Less than one year	6,127	7,446
1 to 2 years	4,283	5,744
More than 2 years	2,950	4,818
Total	13,360	18,008

Operating lease commitments are analysed in note 23.

19 Financial instruments - continued

19(g) Capital management

The Group's capital includes share capital, retained earnings and property revaluation reserve.

The Group's policy is to maintain a strong capital base to ensure that it continues as a going concern, to maintain investor, supplier and market confidence and to sustain future development of the business. The board regularly monitors current and future capital requirements and costs.

The Group complied with all of the financial covenants incorporated in the bank borrowing facilities (note 9) and the At-Call Deposit trust deed (note 10) at the reporting date and at 30 June 2015. There are no other externally imposed capital requirements.

There has been no change in the Group's management of capital during the years ended 30 June 2016 and 2015.

20 Financial instruments by category

	Fair value through profit or loss	Amortised cost	Financial derivatives
2016	$000	$000	$000
Assets			
Cash and bank balances	-	15,402	-
Trade & other receivables	-	32,816	-
Credit contracts	-	11,324	-
Shares in companies	1,507	-	-
Liabilities			
Bank borrowings	-	-	-
At-call Deposits	-	17,531	-
Trade & other payables	-	36,907	-
Vehicle floorplan finance	-	59,942	-
Credit contracts	-	11,428	-
Financial derivatives – foreign exchange	-	-	1,302
2015			
Assets			
Cash and bank balances	-	5,781	-
Trade & other receivables	-	36,707	-
Credit contracts	-	14,876	-
Shares in companies	1,111	-	-
Financial derivatives – foreign exchange	-	-	2,973
Liabilities			
Bank borrowings	-	29,900	-
At-call Deposits	-	18,047	-
Trade & other payables	-	49,252	-
Vehicle floorplan finance	-	54,725	-
Credit contracts	-	15,026	-

21 Cashflow reconciliation

	2016 $000	2015 $000
Profit after tax for the year	22,585	18,705
Adjustments for non-cash items		
Depreciation	4,082	4,080
Amortisation	100	100
Revaluation of property and investments	(1,059)	(255)
Realised gain on sale of property	(1,072)	-
Movement in		
Impairment credit contracts	(46)	(18)
Foreign exchange	-	(48)
Deferred tax	(73)	(941)
Movement in working capital		
Trade & other payables	(12,344)	6,998
Tax payable	964	(453)
Receivables & prepayments	3,891	(1,677)
Inventory	21,214	(28,855)
Net cash flow from operating activities	38,242	(2,364)

22 Contingent liabilities / capital commitments

	2016 $000	2015 $000
Contingent liabilities	-	-
Capital commitments for new and developments to dealership facilities	10,333	3,400

23 Operating lease commitments & receivables

Commitments under non-cancellable operating leases are due

	2016 $000	2015 $000
Within one year	3,408	2,648
Between one and two years	2,310	1,805
Between two and five years	2,464	2,524
Over five years	1,192	1,767
	9,374	8,744

The Group owns most of the property from which it operates. However, some Dealerships operate from sites not owned by the Group or have additional premises leased from third parties. These operating lease commitments primarily refer to those properties. The leases are negotiated under normal commercial arrangements with varying terms, escalation clauses and renewal conditions. There are no undue restrictions imposed on these leases or contingent rents due. The Group does not carry any material finance leases.

Receivables under non-cancellable operating leases are due

	2016 $000	2015 $000
Within one year	195	371
Between one and two years	133	195
Between two and five years	229	286
Over five years	206	282
	763	1,134

24 Financial derivatives – foreign exchange

	2016 $000	2015 $000
Foreign exchange asset / (liability)		
Opening balance	2,973	(507)
Movement during the year through		
Other comprehensive income	(4,274)	3,432
Profit or loss	(1)	48
Closing balance	(1,302)	2,973

Refer note 19(d) for additional details

Foreign currency transactions are translated into the functional currency using the actual exchange rate at the date of the transaction.

Forward exchange contracts are recognised initially at fair value.

At the inception of a hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments are effective.

Foreign exchange contracts outstanding at reporting date are adjusted to fair value (marked to market). Adjustments that qualify as being effectively hedged are recognised through the statement of comprehensive income and form the foreign exchange cashflow hedge reserve. Those that do not so qualify are recognised through profit or loss.

25 Group companies

All subsidiaries are 100% owned (2015: 100%), with the exception of Southpac Trucks Ltd which is 85% owned (2015: 85%) and all subsidiaries have a reporting date of 30 June. All Group companies are registered in New Zealand. Subsidiary companies operate as motor vehicle dealerships and related or incidental activities. The Company provides administrative and financial services to the subsidiaries as well as leasing them at market rates many of the properties they occupy.

Trading subsidiaries

Agricentre South Ltd, Avon City Motorcycles Ltd, Avon City Motors Ltd, Capital City Motors Ltd, Dunedin City Motors Ltd, Energy City Motors Ltd, Energy Motors Ltd, Fagan Motors Ltd, Hutchinson Motors Ltd, Jeff Gray Ltd, M.S. Motors (1998) Ltd, Macaulay Motors Ltd, Ruahine Motors Ltd, South Auckland Motors Ltd, Southern Autos – Manukau Ltd, Southpac Trucks Ltd, Stevens Motors Ltd, The Hawkes Bay Motor Company Ltd, Timaru Motors Ltd.

Non-trading subsidiaries

Avery Motors Ltd, Capital City Paint & Panel Ltd, East City Ford Ltd, Panmure Motors Ltd, Papakura Ford Ltd, Pukekohe Motors Ltd, South Auckland Ford Ltd, Metro Training Services Ltd, Metro Motors (Porirua) Ltd, Trucks South Ltd, Tower Motors (2012) Ltd, Advance Agricentre Ltd and Southland Tractors Ltd.

26 Segment reporting

The Group is structured so that each motor vehicle dealership is managed locally under the control of a dealer principal who reports monthly to the Group Chief Executive. The Group Chief Executive is considered to be the Chief Operating Decision Maker in terms of NZ IFRS 8 Operating Segments. The key measures used to assess dealership performance are revenue, trading profit before tax, trade receivables and inventory.

Each of the trading subsidiaries enters into agreements in its own right with the New Zealand distributor to sell and service specific brands of motor vehicle in a defined primary marketing area. As national distributor of two brands of heavy trucks, Southpac Trucks Limited has equivalent agreements with the international suppliers covering the whole country. Most of these agreements (called either dealer or franchise agreements) do not have a specific duration. All of the dealer or franchise agreements contain the right for the distributor/franchisor or the dealer to terminate the arrangements at short notice. Some of these agreements have finite terms from one to three years, usually without automatic rights of renewal. If a dealership or franchise agreement is terminated or not renewed there could be a detrimental effect on the future financial performance of the Group.

The dealerships have similar economic characteristics, financial performance (as measured by their gross profitability), products, services, processes, customers, methods of distribution and all operate in the same regulatory environment. On that basis, all of the Group's operating segments have been aggregated into a single reporting segment to most appropriately reflect the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates.

26 Segment reporting - continued

	2016 Motor vehicle dealerships $000	2016 Corporate and non-trading units $000	2016 Total Group $000	2015 Motor vehicle dealerships $000	2015 Corporate and non-trading units $000	2015 Total Group $000
Revenue	866,414	823	867,237	788,814	563	789,377
Depreciation and amortisation	2,930	1,252	4,182	2,861	1,319	4,180
Interest income	151	29	180	40	91	131
Interest expense	3,031	1,229	4,260	3,110	2,245	5,355
Trading profit before tax	25,416	3,323	28,739	21,868	3,223	25,091
Total assets	204,896	96,022	300,918	234,418	91,960	326,378

27 New standards, interpretations and amendments

At the date of authorisation of these financial statements, certain new standards and interpretations to existing standards have been published but are not yet effective and have not been adopted early by the Group.

Management anticipates that all pronouncements will be adopted in the first accounting period beginning on or after the effective date of the new standard. Information on new standards, amendments and interpretations that are expected to be relevant to the Group financial statements is provided below. Certain other new standards and interpretations issued but not yet effective and not expected to have a material impact on the Group's financial statements, have not been disclosed.

Standards	Effective for reporting periods beginning:
NZ IFRS 15 Revenue from contracts with customers	1 July 2018
NZ IFRS 9 Financial Instruments	1 July 2018
NZ IFRS 16 Leases	1 July 2019

Management has not yet fully evaluated the effect that NZ IFRS 16 may have on the Group financial statements.
NZ IFRS 15 and NZ IFRS 9 may result in additional disclosure but recognition and measurement changes are expected to be minimal.

28 Related party transactions

The Group has related party transactions with key management personnel and the Staff Superannuation Fund.

Transactions with key management personnel were:

	2016 $000	2015 $000
Short term benefits (including salary, incentives, profit share, use of motor vehicle and other benefits)	6,967	6,033
Post-employment benefits (including superannuation contributions)	476	237
Share related benefits	-	-
Total remuneration benefits	7,443	6,270

Key management personnel includes current directors (executive and non-executive), key management at the Group office and chief executives of all trading subsidiaries.

Some key management personnel have funds on deposit with the Company by way of its unsecured call debt securities (see note 10) on the same terms and conditions as all other depositors.

Mr G D Gibbons, a director, is also a director of Motor Trade Finance Ltd which provides vehicle finance facilities to operating subsidiaries on normal commercial terms and conditions. Refer note 5.

Mr J P Gibbons is a director of the Motor Trade Association. Group operating subsidiaries are members on normal commercial terms and conditions.

Also see remuneration of Directors on page 32 and remuneration of employees on page 33.

28 Related party transactions - continued

The Colonial Motor Company Limited Staff Superannuation Fund.

The Company is the trustee of The Colonial Motor Company Limited Staff Superannuation Fund (the Fund), a defined contribution scheme in which key management personnel participate. The Company provides administrative services to the Fund and received fees of $0.060m (2015: $0.058m) during the year.

The Fund holds 304,196 (2015: 304,196) ordinary shares in the Company through a wholly-owned investment company.

The Fund holds 835,000 (2015: 835,000) MTF perpetual preference shares.

All transactions between key management personnel, the Fund and Group companies were in the normal course of business and provided on arm's length commercial terms.

29 Events subsequent to the reporting date

On 19 August 2016 a dividend was declared of 27.0 cents per share to be paid fully imputed on 17 October 2016 representing a total payment of $8.8 million.

Grant Thornton

Independent Auditor's Report

Audit

Grant Thornton New Zealand Audit Partnership
L3, 2 Hazeldean Road
Addington
PO Box 2099
Christchurch 8140

T +64 (0)3 379 9580
F +64 (0)3 366 3720
www.grantthornton.co.nz

To the Shareholders of The Colonial Motor Company Limited

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements on pages 7 to 27 of The Colonial Motor Company Limited (the "Group") which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, a statement of significant accounting policies and other explanatory information. The Group comprises The Colonial Motor Company Limited and the entities it controlled at 30 June 2016, or from time to time during the reporting period.

Directors' responsibility for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Partners and the staff of our firm may deal with the group and when they do they do so on normal terms within the course of trading activities of the business. Other than this, the firm has no other interests in the Group.

Opinion

In our opinion, the accompanying consolidated financial statements on pages 7 to 27 present fairly, in all material respects, the consolidated financial position of The Colonial Motor Company Limited and the entities it controlled as at 30 June 2016 and their consolidated financial performance and consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards.

Grant Thornton

Grant Thornton New Zealand Audit Partnership
Christchurch, New Zealand
16 September 2016

Governance statement

Governance is the chain of command through which companies are run. Shareholders, as owners of a company, elect a board to direct its long-term strategy and to appoint a chief executive to manage the company. Reporting flows back up the chain to ensure that each link is performing its duties appropriately.

The Group is structured so that each motor vehicle dealership is managed locally and reports to the Group Chief Executive. Each dealership also has a direct relationship with each franchisor that it represents.

Shareholders
The shareholders adopted the current constitution in 2004 that specifies the administration of the Company and the relationship between shareholders. Copies of the constitution are available from the Company or can be downloaded from the Companies Office website.

CMC is a public company listed on the New Zealand Stock Exchange operated by NZX Limited. Computershare Investor Services Limited maintains the register of shareholders.

A condition of listing is that CMC complies with the listing rules issued by the Stock Exchange. These include the requirement to continuously disclose market sensitive information. The market acts in the position of all current and potential shareholders and disclosure via the Stock Exchange is generally considered adequate notice. However, CMC has a policy of also communicating directly with its shareholders whenever practical.

Shareholders meet in person at annual meetings to

- consider the Company's financial performance and financial position
- elect or re-elect directors
- record the appointment of an external statutory auditor and
- set the maximum level of director remuneration following reviews in alternate years. The actual amount paid to each director is disclosed in annual reports.

The board of directors issues three reports annually - a half year report, a preliminary result and a full year report - to provide shareholders with the information they need to monitor their investment in the Company. The CMC reports are designed to deliver that information in a clear, concise manner. The reports are mailed to all shareholders and are available for download from CMC's website www.colmotor.co.nz. Shareholders may register to receive the interim and preliminary reports electronically.

Directors
The Board of Directors acts in a stewardship role on behalf of all shareholders. It approves the strategic direction of the Company, oversees the management of its capital resources, monitors its performance and compliance, ensures its assets are safeguarded and its workplaces are safe.

New Directors are identified by the nomination committee of the board or may be nominated by shareholders. The constitution specifies that at least one third of the directors must retire each year. Directors who are eligible may stand for re-election. Directors who have been appointed in the year must stand for election at the next annual meeting as must anyone nominated as a director. The constitution also specifies that there should be between five and seven directors. The Board contains a mix of independent, executive and non-executive directors.

The Board ensures that, consistent with its history and industry standing, CMC conducts its dealings with all stakeholders with integrity and respect. It maintains a directors' manual including a code of ethics that extends to all staff and sets out definitive standards of behaviour. In particular, Directors take care to comply with rules requiring disclosure of positions and occupations they have outside of CMC that may involve a conflict of interest.

The Directors have established a securities trading policy to comply with prevailing legislation that requires full disclosure by directors and senior executives both before and after buying and selling shares in CMC. All share trades by directors are reported to the market. The statutory registers of directors, their shareholdings and interests are kept at CMC's registered office.

The Board schedules at least eight meetings each year to monitor the progress of management on achieving the targets and objectives that the Board has set. The Board usually meets in Wellington but at least once a year it holds a meeting at a dealership in order to meet front-line staff and experience operations at first hand. Additional *ad hoc* meetings are held when necessary, sometimes by telephone conference.

During the year the Board held ten meetings, eight in person and two by telephone conference. The Audit & Compliance Committee met five times and the Remuneration Committee met once. The Nominations Committee which, consisted of all directors, met once.

Governance statement (continued)

Board committees
Where additional detailed supervision or consideration is required, the Board establishes committees that operate by making recommendations to the full board for final resolution. There are three standing committees with specific written terms of reference.

Audit & Compliance Committee
Comprising F R S Clouston (Chairman), D M Wood and A J Waugh, the committee meets regularly with management, the internal auditor and the external auditor to:

- review the adequacy of controls to identify and manage areas of potential risk and to safeguard the assets of the Company;
- maintain the independence of the external Auditor and review the external audit functions generally; and
- evaluate the processes to ensure that financial records and accounting policies are properly maintained in accordance with statutory requirements and financial information provided to shareholders and the board is accurate and reliable.

Members of the committee have relevant financial qualifications and/or commercial experience.

Management is delegated the responsibility for developing, maintaining and enforcing the system of internal controls. The same basic set of controls is applied across the Group. Monthly reports from each dealership form a key element of the financial control mechanism.

An Internal Auditor works in conjunction with the external statutory auditor to complete a review of all dealerships every year for maintenance of the standard of accounting practices and for compliance with the internal policies and procedures. The Internal auditor regularly reports to the audit and compliance committee.

Remuneration Committee
J P Gibbons, (Chairman) and F R S Clouston make up the remuneration committee the purpose of which is to ensure that the Directors and senior executives are fairly and reasonably rewarded for their individual contributions.

Management and director remuneration is disclosed in the annual report.

Nominations Committee
This committee has the task of identifying potential directors with skills that are complementary to the needs of the Company and the board. All Directors serve on the nominations committee.

External auditor
The role of the external auditor is to report to shareholders on the truth and fairness of the financial statements prepared by management, authorised by the board and included in the annual report. The audit partner and the chairman of the Audit & Compliance Committee meet twice a year and the auditor attends committee meetings at least three times a year. The scope of discussions is not limited but includes issues identified during audits, audit planning and staffing and the extent of non-audit work by the audit firm. The primary audit partner is changed periodically to provide a fresh perspective and to ensure greater independence. Fees paid for audit and any non-audit work (such as taxation advice) are disclosed in the annual report.

Risk management
The range of tools used to mitigate risk includes elements of corporate governance outlined in this report, the system of internal controls and management reporting and accountability. The board reviews the Group insurance programme and assesses which risks to insure with the assistance of an external insurance broker.

The Audit and Compliance Committee has particular responsibility for internal audit and health & safety on which it receives regular reports. Management provides the committee with an annual internal management and regulatory compliance summary report.

CMC operates a group-wide workplace safety management practices programme. Following regular independent audit by ACC-approved auditors, all dealerships meet secondary status with most having progressed to tertiary standard.

Compliance with NZX corporate governance best practice code
The NZX Listing Rules require issuers to include a statement in their annual reports of material differences between their corporate governance principle and the corporate governance best practice code contained in appendix 16 to the Listing Rules.

The Board believes that CMC complies with the corporate governance best practice code in all material respects. The corporate governance best practice code encourages directors to take a portion of their remuneration under a performance-based equity security compensation plan or to invest a portion of their cash remuneration in purchasing CMC shares. CMC has no equity-based remuneration plan and does not require its directors to purchase or hold CMC shares.

Disclosures as required by the Companies Act 1993

(a) Directors' interests

In relation to sections 140 and 211(1)(e) of the Act, no director has declared any interest in a related party transaction with the Company during the year. The Company has received the following general disclosures of interest pursuant to section 140(2) of the Act that remain in place at the date of this report:

J P Gibbons	Director of Motor Trade Association and MTA Group Investments Limited.
G D Gibbons	Director of Motor Trade Finance Limited.
F R S Clouston	Chairman of Wellington Merchants Limited, Titan Cranes Limited and Results.Com Limited. Director of Hubbard Foods Limited and Arria NLG Limited.
D M Wood	Chairman of Mercy Healthcare Auckland Limited.
A J Waugh	Chairman of Moa Brewery Limited and director of Fonterra Co-operative Group Limited and Seeka Kiwifruit Industries Limited.

(b) Remuneration of directors

Remuneration and all other benefits received by the directors who held office during the year ended 30 June 2016 are disclosed pursuant to section 211(1)(f) of the Act as follows

	Directors' fees 2016 $	Total remuneration 2016 $	Total remuneration 2015 $
J P Gibbons (Chairman)	77,000	101,634	101,634
F R S Clouston	51,700	51,700	51,700
G D Gibbons	-	984,634	912,701
S B Gibbons	-	245,814	185,203
M J Newman	-	789,662	570,932
D M Wood	47,000	47,000	47,000
A J Waugh	31,333	31,333	-
P J Aitken	15,667	15,667	47,000

Remuneration for the Chairman, additional to directors' fees, included the provision of a motor vehicle.

F R S Clouston was elected Chairman of the Audit & Compliance Committee in November 2013 and received additional directors' fees commensurate with the position from that date.

Executive directors do not receive directors' fees for acting as a director of the Company or of any subsidiary. Executive directors acting in their capacity as employees of the Company or of a subsidiary received total remuneration including salary, incentives, superannuation contributions, use of a motor vehicle and other benefits in the year ended 30 June 2016 as disclosed above. No other employee of the Company, or of any Group subsidiary, retains or receives any remuneration or other benefits as a director.

The remuneration package of the Group Chief Executive (who is also a director) has a profit performance component. The incentive payment for the year to 30 June 2016 was $569,500 (2015: $514,067). Dealer Principals/CEOs of subsidiary companies receive a profit performance component of their remuneration based on their dealership profit. The remuneration received by M J Newman and S B Gibbons as executives is shown for the twelve months to 30 June 2016 and includes a profit performance component of $527,281 and $74,733 respectively (2015: $316,251 for M J Newman and $14,122 for S B Gibbons).

In accordance with clause 28.4 of its constitution, the Company may provide for directors retirement benefits. The total provided at 30 June 2016 was $231,000 (2015: $Nil). Directors appointed after 1 May 2004 are not eligible to receive a retirement allowance unless authorised by shareholder resolution.

As permitted in clause 29.4 of the Company's constitution, an insurance policy is in place in relation to directors and officers liability. The policy ensures that generally directors will incur no monetary loss as a result of actions they undertake as directors. Certain actions are specifically excluded, such as incurring penalties and fines that may be imposed in respect of breaches of the law.

Disclosures as required by the Companies Act 1993

(c) Use of company information by directors

During the year the board did not receive any requests from directors to use Company information provided to them in their capacity as an officer or employee that would not otherwise have been available to them.

(d) Share dealings by directors

Directors have disclosed under Section 148(2) of the Act the following acquisition of a relevant interest in shares in the Company between 1 July 2015 and 31 August 2016.

Director	Number of shares acquired/ (disposed)	Date of transaction	Price per share	Type of interest
M J Newman	1,500	26 August 2015	$5.45	Beneficial
J P Gibbons	(338,357)	12 November 2015	Off-market	Non-beneficial
S B Gibbons	3,500	8 December 2015	$5.59	Beneficial
A J Waugh	2,600	3 March 2016	$5.95	Beneficial

Directors disclosed no other transactions in the shares of the Company during the period.

(e) Composition of the Board

All 7 of the Directors and the 13 officers (direct reports to the Group Chief Executive) at the reporting date were male (2015: 7 Directors male, 13 officers, male)

(f) Remuneration of employees

During the year to 30 June 2016 the number of employees in the Group, not being directors of The Colonial Motor Company Limited, who received remuneration (including salary, incentives, superannuation contributions, use of a motor vehicle and other benefits) which exceeded $100,000 were as follows:

Remuneration	Number of employees		Remuneration	Number of employees	
$	2016	2015	$	2016	2015
100,000 - 110,000	26	27	290,001 - 300,000	1	1
110,001 - 120,000	27	17	300,001 - 310,000	-	1
120,001 - 130,000	16	9	321,001 - 330,000	1	1
130,001 - 140,000	13	13	330,001 - 340,000	-	1
140,001 - 150,000	10	8	360,001 - 370,000	1	-
150,001 - 160,000	6	12	370,001 - 380,000	-	1
160,001 - 170,000	5	4	381,001 - 390,000	3	-
170,001 - 180,000	6	2	390,001 - 400,000	2	1
180,001 - 190,000	6	4	400,001 - 410,000	-	1
190,001 - 200,000	5	5	410,001 - 420,000	-	1
200,001 - 210,000	4	2	440,001 - 450,000	-	1
210,001 - 220,000	4	2	480,001 - 490,000	1	-
220,001 - 230,000	2	2	501,001 - 510,000	1	-
230,001 - 240,000	4	2	531,001 - 540,000	1	-
240,001 - 250,000	1	2	1,000,001 - 1,100,000	1	1
270,001 - 280,000	2	1			
			Total	149	123

Disclosures as at 30 June as required by the New Zealand Stock Exchange Listing Rules

(a) Director independence

The following directors were Independent Directors at reporting date:

F R S Clouston
A J Waugh

The following directors were not Independent Directors at reporting date:

J P Gibbons
G D Gibbons
D M Wood
M J Newman
S B Gibbons

(b) Directors' relevant interests at 30 June 2016

	Shares in which the director has a beneficial interest solely or jointly		Shares in which the director has a non-beneficial interest		Shares held by associated person of the director	
	2016	2015	2016	2015	2016	2015
P J Aitken *	-	8,870	-	-	-	-
G D Gibbons	1,737,849	1,737,849	250,825	250,825	104,520	104,520
J P Gibbons	1,421,081	1,421,081	1,035,849	1,225,003	513,270	469,270
S B Gibbons	1,908,676	1,905,176	176,087	176,087	6,151	6,151
M J Newman	2,500	1,000	-	-	-	-
D M Wood	20,000	20,000	18,426	18,426	578,120	578,120
A J Waugh *	2,600	-	-	-	376	-

* *A J Waugh was elected a director at the annual meeting on 6 November 2015. P J Aitken retired from the board at the conclusion of the same meeting.*

Substantial security holders

As required by section 26 the Securities Markets Act 1988, the substantial security holders as at 31 August 2016 (from whom a notice under the Act had been received and the date of each such notice) were as follows:

	Date	Shares	%
P C Gibbons	1 April 2014	3,477,938	10.64
J P Gibbons	4 October 2013	2,606,084	8.09
S B Gibbons	16 September 2010	2,031,263	6.21

Issued and fully paid capital as at 30 June 2016 was made up of 32,694,632 ordinary shares. The above disclosures include voting securities arising by reason of joint holdings, powers of attorney and directorships as specifically required by the Securities Markets Act 1988 (sections 4 & 5). No shares have been counted more than once in the determination of Substantial Security Holders.

A number of shares identified under JP Gibbons are also jointly held or have trustees in common with NL, BR Gibbons and PL Bennett.

A number of shares identified under SB Gibbons are also jointly held or have trustees in common with AD Gibbons and LB Rogerson.

Distribution of shareholders and shareholdings

This distribution information reflects the position as at 31 August 2016.

	Number of shareholders		Number of shares	
	Number	%	Number	%
1 - 999	234	15.2	114,378	0.3
1,000 - 9,999	962	62.8	3,279,942	10.0
10,000 - 99,999	284	18.5	6,887,488	21.1
100,000 - 999,999	49	3.2	16,167,841	49.5
1,000,000 +	4	0.3	6,244,983	19.1
Total	1,533	100.0	32,694,632	100.0

Five year summary of shareholder return on investment – 30 June year ended

Year	Share price at 30 June	Dividends paid - cps Date	Net	Gross	Gross dividend yield %	Change in share price cps	Total gross return cps	Gross shareholder return %
2016	$6.20	18/04/16	13.0	45.8	8.0	45.0	90.8	15.8
		19/10/15	20.0					
2015	$5.75	20/04/15	13.0	48.7	9.3	55.0	103.6	19.9
		20/10/14	22.0					
2014	$5.20	04/04/14	13.0	47.3	12.0	125.0	172.3	43.6
		21/10/13	21.0					
2013	$3.95	05/04/13	9.0	35.4	11.2	80.0	115.4	36.6
		23/10/12	16.0					
2012	$3.15	23/04/12	9.0	30.0	11.8	61.0	91.0	35.8
		25/10/11	12.0					

Note: Yields are calculated on the share price at the beginning of each year. The share price at 30 June 2011 was $2.54.

Fifty largest shareholdings as at 31 August 2016

	Shares	%
Peter Craig Gibbons	2,108,699	6.4
AD & SB Gibbons & LB Rogerson	1,675,605	5.1
Florence Theodosia Gibbons	1,287,037	3.9
Peter Craig Gibbons (Trust)	1,173,642	3.6
JP & BR Gibbons & PL Bennett	683,550	2.1
NL, BR & JP Gibbons & PL Bennett (Estate RC Gibbons Deceased)	664,006	2.0
RJ Field & AJ Palmer	600,000	1.8
Graeme Durrad Gibbons	564,207	1.7
MI & C Louisson & RM Carruthers	563,777	1.7
PL & LC Bennett & JP Gibbons	543,794	1.7
BR & CM Gibbons & PL Bennett	528,971	1.6
Diana Durrad Harrison	523,628	1.6
Gillian Durrad Watson	507,619	1.6
Robert Durrad Gibbons	507,480	1.6
Sara Durrad Wood	506,919	1.6
Alison Durrad Beaumont	497,004	1.5
JP & DM Gibbons & PL Bennett	492,055	1.5
MA Gibbons, AK Cook & PJ Clark	474,348	1.5
JG, J & CG Harrison	458,317	1.4
Forsyth Barr Custodians Limited	426,048	1.3
Public Trust Class 10 Nominees Limited	408,504	1.2
Citibank Nominees (New Zealand) Limited	381,734	1.2
Nancy Lucy Gibbons	375,710	1.1
May Alice Gibbons	355,196	1.1
CG, AE & JG Harrison	335,244	1.0
JG, KS, SKE & J Bale	324,244	1.0
CMC Super Fund Investments Limited	304,196	0.9
RB & JG Tait & IJ Craig	302,488	0.9
Rebecca Hope Wilson	300,478	0.9
Custodial Services Limited	284,879	0.9
Leanne Barnes Rogerson	281,410	0.9
SH Majors, RH & SJ Wilson	268,556	0.8
K Enright & C Louisson	261,566	0.8
David Grindell	254,000	0.8
Salpean Nominees Limited	245,000	0.7
CM Louisson & N Tarsa	241,804	0.7
Stuart Barnes Gibbons	233,071	0.7
Anita Forbes Peake	232,480	0.7
RD Gibbons, SD Wood & GD Gibbons	204,810	0.6
CG & AE Harrison & JA Flygenring & P&H Trustees No 2 Limited	188,118	0.6
JH Smith, AF Peake & SB Gibbons	176,087	0.5
Judith Gibbons Bale	147,929	0.5
Custodial Services Limited	143,972	0.4
HA Louisson, CJ Warren & JA Piper	140,870	0.4
FNZ Custodians Limited	140,355	0.4
Ian Forbes Michie	135,730	0.4
GH & FT Gibbons & SJ Wilson	122,413	0.4
Sally Blundell Fell	118,174	0.4
Anne Blundell Norman	118,173	0.4
Estate Elsie Craig Gibbons Deceased	117,392	0.4
Total of fifty largest shareholdings	21,931,289	66.9
Total shares on issue	32,694,632	100.0

A number of the registered shareholders may hold shares as nominee(s) on behalf of other parties.

The Colonial Motor Company Limited

Today the CMC Group's core business is the operation of twelve Ford dealerships each holding a franchise in its own right from the Ford Motor Company of NZ Ltd. Seven of these dealerships also hold Mazda franchises. CMC, through Southpac Trucks, is the NZ distributor and retailer of Kenworth and DAF heavy duty trucks. In addition CMC has four BMW dealerships trading as Jeff Gray BMW, and in Southland/Otago, Agricentre South retails New Holland, Case IH and Kubota tractors and equipment.

The Colonial Motor Company originated from William Black's coach-building factory which started operations in 1859 at 89 Courtenay Place, Wellington. In 1881 it was taken over by Rouse & Hurrell, who expanded the business with new three storied premises calling it Rouse & Hurrell's Empire Steam and Carriage Works. This partnership was formed into a limited liability company in 1902 with Mr Edward Wade Petherick the first Secretary of the Company. The Ford Motor Car Agency was taken up in 1908 and in August 1911 a new name "The Colonial Motor Company Limited" was registered.

On Ford Canada's recommendation a dominant shareholding and control was acquired by Mr Charles Corden Larmour and the sale of this majority holding and control to Mr Hope Gibbons and his family interests was concluded in April 1918 after negotiations in 1916. At that time there were 17 Authorised Ford Dealers in New Zealand of which 10 were in the South Island. In 1919 the Company restructured with a new memorandum and articles but the 1911 name was retained and remains the same today.

The nine storied building at 89 Courtenay Place, designed by architect J M Dawson to Ford plans, opened as the tallest Wellington construction in 1922. It was the first motor vehicle assembly plant in New Zealand - vehicles starting in boxes at the top and driving out completed at the bottom. The Company later built assembly plants at Fox Street, Parnell, Auckland and Sophia Street, Timaru. This was the age of the Model T with Ford market share reaching a peak of 27% in 1926. The 'CMC' Building was sold in 2005.

In 1936, Ford Motor Company of New Zealand Limited established an assembly plant at Seaview, Lower Hutt, and took over the distribution of Ford products in New Zealand. CMC then concentrated on the retail side of the business, operating the retail garages it then owned. The 1930's and 1940's were a time of survival with the depression, excess stock of new product, and then no new vehicles available during the war years and petrol rationing until 1950. Service became the key to remaining in business.

Shortly after the end of the war the supply of new vehicles was resumed and the 30 years up to 1980 saw the Group consolidate. The Dealer organisation that developed proved to be one of the best retail motor groups in New Zealand. Over this period nearly every Dealership was either rebuilt, fully refurbished or relocated and new Dealerships were opened in East, West and South Auckland to cater for Auckland growth.

For the 50 years up to 1987, New Zealand had import licensing, local assembly of vehicles and heavy additional sales taxes to control overseas funds. The new vehicle industry under this regime peaked in 1973 and again in 1974 at 123,000 units. The dismantling of controls and the arrival of second hand imports from Japan saw the industry fall to just 66,500 new vehicles in 1992. 2014 was the highest new vehicle industry since 1984.

The late 1980's and all through the 1990's was a period of change and adaptation. Over a decade most smaller Ford dealerships either closed down or merged with their neighbours. This resulted in fewer, but larger, Ford dealerships. CMC closed or sold its smaller dealerships and acquired others to expand its city and provincial locations. Nelson was acquired during this period. Compounding the changes was the Ford NZ decision to first sell its NZ tractor distribution to Norwoods and then later to close its distribution of heavy trucks in New Zealand.

Most of the CMC company tractor departments were closed, with the exception of Southland. This business has since grown to become Agricentre South Ltd, retailing New Holland & Kubota tractors in Southland and Case IH tractors in Southland / Otago. In 1994 CMC acquired a major interest in Southpac Trucks, the NZ distributor for Kenworth and Foden (since retired) and more recently, DAF, heavy duty trucks which are all part of the USA based PACCAR organisation. Southpac Trucks has since grown into a major player in the NZ heavy truck industry.

Guinness Peat Group plc (GPG) made a takeover offer for CMC in October 1995. Among the sellers who enabled GPG to acquire 33.9% were some original Gibbons Family shareholders. As part of a plan to maximise value to shareholders, Directors resolved to rationalise the Company's non-dealership property holdings, repay the surplus funds to shareholders and focus the Company on its core motor trade activities.

In June 1997, GPG sold its shares to the MBM Group of Malaysia. Over the following years MBM sold down its holding in CMC, with many of the shares acquired by members of the Gibbons family. MBM sold its final block of 24.9% to a large number of individuals in 2003, resulting in the addition of 300 shareholders to CMC.

In 1999, CMC's Auckland Dealerships joined with Ford Motor Company and three other Ford dealerships to form Auckland Auto Collection Limited (AACL). This move represented the biggest change in the Ford franchise arrangements in New Zealand for over 60 years. During 1999, this new business acquired the Mazda Dealerships in Auckland and Mazda Motors joined CMC and Ford as a shareholder. From 2002, the business operated as three Ford and Mazda dealerships - North Harbour, John Andrew and South Auckland. CMC sold its shareholding back to AACL in May 2005 and, in return, acquired the South Auckland Dealership.

On 16 June 2003, Ford Motor Company celebrated its centennial and the production of the original Model A Fordmobile with CMC and its forebears having been actively involved with Ford for 95 of those 100 years. In celebration of this long relationship, a history of the Company's operations and activities "Ford Ahead" was written and published by Roger Gardner.

During the 2000's CMC also acquired the Mazda franchises in Invercargill, Dunedin, Timaru, Wellington, Lower Hutt and Masterton. These were run as dual dealerships with the existing Ford dealerships. The policy of adding Mazda to Ford dealerships ended when Ford USA sold its interest in Mazda Japan in 2009.

It has been part of the Company's philosophy and success to own property sites from which its retail subsidiary companies operate.

More recent additions to CMC include Case IH tractors in Southland and Otago, Suzuki motorbikes in Christchurch and Masterton, Hyundai cars in New Plymouth, Nissan cars in Hastings and Kia cars in Nelson. In 2014, Jeff Gray BMW and MINI with four dealerships in Christchurch, Wellington, Palmerston North and Hastings were added. A new dealership is being established in South Auckland, selling Citroen, Peugeot and Isuzu light commercials.

The current major shareholdings in CMC are with individual decendants of Hopeful & Jessie Gibbons, who collectively hold over 60% of the Company shares. There are also many descendants of the original 1902 subscribers to the Rouse & Hurrell Carriage Building Company Limited who remain shareholders today.

Throughout the Company's history, change has always been with us and our ability to adapt in good times and in bad has ensured ongoing wellbeing and prosperity. As well, it has always been recognised that dedicated, skilled and enthusiastic people have been, and will continue to be, the key to the Company's future.