



*The
Colonial
Motor Company
Limited*

HALF YEAR REPORT

For Six Months Ended 31 December 2017

The Colonial Motor Company Limited
HALF YEAR REPORT

For the Six Months Ended 31 December 2017

57 Courtenay Place
Wellington
20 February 2018

Dear Shareholder

Trading profit after tax at \$11.903m is up 15.9% on the same period last year.

Interim dividend of 15.0 cents per share – up 2.0 cents.

The Directors are pleased to announce the unaudited results for the six months to 31 December 2017. The trading profit after tax of \$11.903m is up 15.9% on last year's record profit for the same period.

The record result for the Company was driven by heavy trucks, with both sales volume and trading profit growing in the six month period. Kenworth and DAF had strong sales growth with a full calendar year total of 482 heavy vehicles registered.

The total new light vehicle industry for the second half of the last calendar year was up 3.9% on the same period a year before, a materially lower rate of growth than the 13.5% growth of a year earlier. This slowing rate of growth impacted on the profitability of our car dealerships. The car dealerships trading profit was lower than the record result a year earlier but above that achieved in both 2015 and 2014. Segment shifts within the market continue with the established pattern away from sedans and hatches into SUVs and light commercials. This trend affects Ford and Mazda differently. Mazda is strong in the important SUV segment, while Ford is successful in the light commercial sector.

Developments

South Auckland Motors' new facility at Takanini (leased) successfully opened on time in December.

Late in 2017, Southern Autos-Manukau was appointed the Suzuki car franchisee to replace Moyes in Panmure, and on 3 January 2018 began selling Suzuki vehicles from its site at Manukau in addition to Isuzu utes, Peugeot and Citroen.

Work has commenced on a CMC-owned workshop facility in Wellington City for Capital City Motors.

Outlook

The total new vehicle market continues to grow and there are strong forward orders for heavy trucks. However the pace of growth has slowed from a year ago and business confidence is more cautious.

Dividend

The Directors have declared a fully imputed interim dividend of 15.0 cents per share, totalling \$4.904m up 2.0 cents from the same period last year. The dividend will be paid on Monday 16 April, with a record date of 6 April 2018.

For and on behalf of the Board
J P Gibbons
CHAIRMAN

The Colonial Motor Company Limited
and Subsidiary Companies

Consolidated Statement of PROFIT OR LOSS For the six months ended 31 December 2017	Notes	6 Months to 31 Dec 2017 \$'000 Unaudited	6 Months to 31 Dec 2016 \$'000 Unaudited	12 Months to 30 Jun 2017 \$'000 Audited
Revenue				
Sale of	- products	424,353	403,912	786,945
	- services	36,543	33,549	65,915
Other income	- interest	149	150	222
	- other	684	582	1,682
Total revenue		461,729	438,193	854,764
Less expenses				
Cost of products sold		388,986	368,442	716,611
Remuneration of staff		35,412	36,054	69,172
Depreciation & amortisation		1,721	1,915	3,750
Property occupation costs		3,182	3,407	6,607
Marketing, promotion & training costs		3,265	3,361	6,246
Other operating costs		9,195	8,017	16,476
Interest cost		2,091	1,753	3,852
Total expenses		443,852	422,949	822,714
Trading profit before tax		17,877	15,244	32,050
Less income tax expense:				
Current		5,271	4,624	9,057
Deferred		(193)	(162)	(328)
Total tax	10	5,078	4,462	8,729
Less: non-controlling interest		896	512	1,303
Trading profit after tax		11,903	10,270	22,000
Fair value revaluation of property		-	-	(119)
Deferred tax on property depreciation		98	68	113
Realised gain on sale of property		-	9	9
Fair value revaluation of investments		-	-	544
Impairment of intangible assets		-	(315)	(315)
Profit after tax		12,001	10,032	22,232
Profit for the period attributable to:				
Shareholders		12,001	10,032	22,232
Non-controlling interest		896	512	1,303
PROFIT FOR THE PERIOD		12,897	10,544	23,535

STATISTICS PER SHARE

Basic & diluted earnings per share				
-	Profit attributable to Shareholders	36.7 cents	30.7 cents	68.0 cents
-	Trading profit after tax	36.4 cents	31.4 cents	67.3 cents
Dividend per share				
	Dividends for the period (\$'000)	15.0 cents	13.0 cents	44.0 cents
	Net tangible assets per share (pre dividend)	4,904	4,250	14,386
		\$5.58	\$5.03	\$5.50

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

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and Subsidiary Companies

Consolidated statement of COMPREHENSIVE INCOME For the six months ended 31 December 2017	6 Months to 31 Dec 2017 \$'000 Unaudited	6 Months to 31 Dec 2016 \$'000 Unaudited	12 Months to 30 Jun 2017 \$'000 Audited
Profit after tax for the period	12,897	10,544	23,535
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Property revaluation reserve			
Fair value movement	-	-	7,414
Deferred tax movement	(176)	370	(9)
Items that may be classified subsequently to profit or loss:			
Foreign exchange reserve			
Movement in effective cashflow hedge	1,576	239	789
Deferred tax movement	(441)	(67)	(221)
Other comprehensive income for the period	959	542	7,973
Total comprehensive income	13,856	11,086	31,508
Attributable to:			
Shareholders	12,790	10,548	30,120
Non-controlling interests	1,066	538	1,388
	13,856	11,086	31,508

Consolidated statement of CHANGES IN EQUITY For the six months ended 31 December 2017	6 Months to 31 Dec 2017 \$'000 Unaudited	6 Months to 31 Dec 2016 \$'000 Unaudited	12 Months to 30 Jun 2017 \$'000 Audited
Total equity at beginning of period	182,885	165,805	165,805
Profit for the period	12,897	10,544	23,535
Other comprehensive income	959	542	7,973
Total comprehensive income	13,856	11,086	31,508
Dividends paid to shareholders	(10,135)	(8,827)	(13,078)
Dividend paid to non-controlling interest	(450)	(450)	(1,350)
Total equity at end of period	186,156	167,614	182,885

Consolidated statement of CASH FLOWS For the six months ended 31 December 2017	6 Months to 31 Dec 2017 \$'000 Unaudited	6 Months to 31 Dec 2016 \$'000 Unaudited	12 Months to 30 Jun 2017 \$'000 Audited
Operating activities - inflows	449,099	439,349	852,832
- outflows	(453,458)	(426,917)	(837,005)
Net cash flow from operating activities	(4,359)	12,432	15,827
Investing activities - inflows	613	3,514	2,283
- outflows	(6,159)	(7,859)	(14,077)
Net cash flow from investing activities	(5,546)	(4,345)	(11,794)
Financing activities - inflows	20,686	10,400	3,053
- outflows	(10,585)	(24,412)	(14,428)
Net cash flow from financing activities	10,101	(14,012)	(11,375)
Net increase/(decrease) in cash held	196	(5,925)	(7,342)
Cash balance/(overdraft) at beginning of period	8,060	15,402	15,402
Cash balance/(overdraft) at end of period	8,256	9,477	8,060

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

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Consolidated statement of FINANCIAL POSITION As at 31 December 2017	Notes	31 Dec 2017 \$'000 Unaudited	31 Dec 2016 \$'000 Unaudited	30 Jun 2017 \$'000 Audited
SHAREHOLDERS' EQUITY				
Share capital	7	15,968	15,968	15,968
Retained earnings		122,619	112,803	120,753
Property revaluation reserve		44,281	37,422	44,457
Foreign exchange cashflow hedge reserve		651	(650)	(314)
TOTAL SHAREHOLDERS' EQUITY		183,519	165,543	180,864
Non-controlling interest		2,637	2,071	2,021
TOTAL EQUITY		186,156	167,614	182,885
CURRENT LIABILITIES				
Bank borrowings		26,700	9,900	7,800
At call deposits		21,370	18,032	18,017
Trade & other payables		30,418	36,620	37,418
Vehicle floorplan finance	4	53,142	44,808	54,709
Financial liabilities – credit contracts	6	2,932	4,331	3,637
Tax payable	10	2,500	2,265	3,112
Financial derivatives – foreign exchange	11	-	1,063	513
TOTAL CURRENT LIABILITIES		137,062	117,019	125,206
NON CURRENT LIABILITIES				
Financial liabilities – credit contracts	6	3,551	5,508	4,556
Deferred tax	10	4,572	3,923	4,245
TOTAL NON CURRENT LIABILITIES		8,123	9,431	8,801
TOTAL EQUITY AND LIABILITIES		331,341	294,064	316,892
CURRENT ASSETS				
Cash & bank accounts		8,256	9,477	8,060
Trade & other receivables		47,377	31,622	34,747
Inventory	5	146,206	136,769	147,767
Financial assets – credit contracts	6	2,861	4,228	3,561
Financial derivatives – foreign exchange	11	1,064	-	-
TOTAL CURRENT ASSETS		205,764	182,096	194,135
NON CURRENT ASSETS				
Financial assets – credit contracts	6	3,551	5,509	4,557
Intangible assets	13	1,028	1,028	1,028
Investments		2,048	1,504	2,048
Property, plant & equipment	8	118,950	103,927	115,124
TOTAL NON CURRENT ASSETS		125,577	111,968	122,757
TOTAL ASSETS		331,341	294,064	316,892

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Merv Perry, Mazda Service Manager and Ivor Cullen, Finance Manager, both received their gold watches in 2017 – pictured in front of the new Mazda brand wall of South Auckland Motors



Russell Dempster, Dealer Principal of Energy City Ford presenting his brother Stuart Dempster, Sales Manager with his gold watch for achieving 25 years service with the dealership

Also receiving a gold watch in 2017 was Michael Shum, Technician at Dunedin City Motors



MITO Business Skills Scholarship April 2017
MITO Chief Executive Janet Lane (centre) and Sam Flannery (left) and Aaron Watt (right) both from Agricentre South



New Mazda CX5 at South Auckland Motors



Cameron Aspinall (left) and Steve Lovett (right) pictured in the new workshop at Takanini



South Auckland Motors new service operation at Takanini – brand new purpose-built leased facility



Fagan Motors and Mazda NZ support Life Flight Trust with vehicles. The Trust provides an essential emergency service for the Wairarapa

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Southern Autos – Manukau showroom featuring new Isuzu utes



Southern Autos – Manukau started retailing Suzuki cars in January 2018



Tech room L to R: Ben Robbie (Apprentice), Brendan Pope (Technician)



Service Reception: L to R Camerson Polmear (Mazda sales), Carolyn Graham (Office Manager), Georgia Stenning (Admin Support) Jan Ryall and Pat Flynn (Service Advisors)

Macaulay Motors recently undertook a complete refurbishment of its Invercargill workshop facility



L to R: Robert Macaulay (Parts Manager), Nicola Stanley (Admin Support), Mike Lee (Technician), Andy Whyte (Senior Parts Assistant)



Mazda BT50 Ute



Ford Transit Custom



New Holland T7.270 AC with a New Holland BB890RC baler at the Southern Field Days in Waimumu

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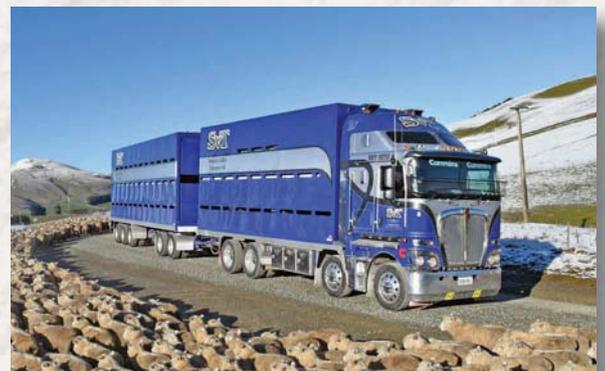
Maarten Durent, Southpac CEO and Andrew Hadjikakou PACCAR Australia MD at the opening



Southpac Trucks opened their new parts & Service branch in Hamilton in June 2017



New model T610 SAR 6x4 with 6 axle A train



K200 Aerodyne with 5 axle trailer for livestock.

DAF CF85 8x4 Tractor with 4 axle container lift



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ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 2017

1. Unaudited financial statements

The financial statements for the six months to 31 December 2017 and 31 December 2016 have not been audited.

2. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP) and NZ IAS 34 Interim Financial Reporting, as appropriate for Tier 1 for profit entities as defined by the External Reporting Board. They do not include all the notes in the most recent annual financial statements and are to be read in conjunction with the annual report for the year ended 30 June 2017 which was prepared in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

These financial statements are presented in New Zealand dollars (rounded to the nearest thousand) which is the functional and presentation currency of the Group.

These consolidated interim financial statements were approved for issue by the Board of Directors on 20 February 2018.

3. Significant accounting policies

The accounting policies, methods of computation, critical accounting estimates and judgements of The Colonial Motor Company Limited and its subsidiaries (the Group) have been applied consistently to all periods and as disclosed in the audited financial statements for the year ended 30 June 2017 except land, buildings and investments are not revalued at the half year. Land and buildings remain at the independent professional valuations and investments remain at the market values disclosed at 30 June 2017. Financial assets held at fair value (such as investments in Motor Trade Finance Ltd shares) are categorised as level two in the fair value hierarchy.

4. Vehicle floorplan finance

	31 Dec 2017	31 Dec 2016	30 June 2017
	\$'000	\$'000	\$'000
Bailment arrangements	<u>53,142</u>	<u>44,808</u>	<u>54,709</u>

When not purchased outright, new vehicles are financed by floorplan facilities consisting of bailment agreements with finance companies. The finance companies retain ownership of 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.

5. Inventory

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

Inventory writedowns for the six months ended 31 December 2017 were \$0.2m (31 December 2016: \$0.4m, 30 June 2017: \$0.0m).

6. Financial assets & liabilities – credit contracts

The Group holds credit contract agreements with Motor Trade Finance Ltd (MTF) which are carried at their net settlement value. The Group had outstanding vehicle financing agreements with MTF of \$6.5m before impairment allowance at 31 December 2017 (31 December 2016: \$9.8m, 30 June 2017: \$8.2m).

A liability arises under these agreements in the event of a customer defaulting on their finance payments to MTF and MTF having recourse to the relevant subsidiary for any outstanding balance. This liability is offset by the value of the loan to the customer and, ultimately, the value of the related vehicle that can be repossessed and sold in the event of any individual default. Allowance is also made for the estimated bad debts that may result from such financing agreements.

7. Share Capital

The number of ordinary shares on issue at all reporting dates was 32,694,632. The weighted average number of shares on issue throughout the periods was also 32,694,632.

A dividend of 31.0 cents per share (2016 – 27.0 cps) was paid on 16 October 2017 to shareholders on the register at 6 October with a total value of \$10.1 million (2016 - \$8.9 million).

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8. Property, plant & equipment

Property, plant & equipment are carried at cost less accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the asset. Land and buildings, other than properties for sale, are revalued annually to fair value based on independent professional valuations. Land is not depreciated.

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 Jun 2017 \$'000
Net book value at start of period	115,124	99,188	99,188
Movement in revaluation	-	-	7,294
Capital expenditure	6,159	7,859	13,888
Disposals at net book value	(536)	(1,305)	(1,506)
Depreciation	(1,797)	(1,815)	(3,740)
Net book value at end of period	118,950	103,927	115,124

9. Group companies

All subsidiaries are 100% owned (2016: 100%), with the exception of Southpac Trucks Limited which is 85% owned (2016: 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. The Colonial Motor Company Limited provides administrative and financial services to the subsidiaries and owns many of the properties they occupy.

10. Taxation

The income tax expense for the current period is the tax payable on that period's taxable income, plus any deferred tax adjustment. Changes in deferred tax assets and liabilities, attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, have resulted in a deferred tax liability of \$4.6m at the reporting date (31 December 2016 \$3.9m, 30 June 2017: \$4.2m).

Deferred tax assets and liabilities are recognised at the tax rates expected to apply when the assets are recovered or the liabilities settled.

11. Financial derivatives – foreign exchange

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

At the inception of the 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 balance date are adjusted to fair value (mark to market). Adjustments that qualify as being effectively hedged are recognised through other comprehensive income and form the foreign exchange hedging reserve and those that do not so qualify are recognised through the profit or loss.

The principal amount of forward exchange contracts outstanding at 31 December 2017 was \$84.2m (31 December 2016: \$40.8m, 30 June 2017: \$76.1m).

12. Reconciliation of cash flows to operating profit

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 June 2017 \$'000
Profit after tax for the period	12,897	10,544	23,535
Adjustments for non-cash items:			
Depreciation, amortisation and impairment	1,721	1,915	4,065
Revaluation (increase)/decrease of property	-	-	(425)
Realised gain on sale of property	-	(9)	(9)
Movements in provisions	(297)	83	(470)
Movements in working capital:			
Receivables & prepayments	(12,629)	1,156	(1,932)
Tax payable	(613)	(1,280)	(433)
Trade & other payables	(7,000)	32	511
Inventory	1,562	(9)	(9,015)
Net cash flow from operating activities	(4,359)	12,432	15,827

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13. Intangible assets

Intangible assets consist of goodwill and are subject to impairment testing twice annually or when events indicate that the carrying amount may not be recoverable. The carrying value was reviewed as at all reporting dates and considered to be fair value.

14. 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 Chief Executive. The 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, debtors and inventory. Each dealership represents vehicle franchises in defined marketing territories within New Zealand and constitutes an operating segment.

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.

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 June 2017 \$'000
Revenue from external customers			
Aggregate motor vehicle dealerships	461,350	437,890	853,755
Corporate and non-trading units	379	303	1,009
Consolidated Group revenue	461,729	438,193	854,764
Trading profit before tax			
Aggregate motor vehicle dealerships	16,209	13,630	29,051
Corporate and non-trading units	1,668	1,614	2,999
Consolidated Group trading profit before tax	17,877	15,244	32,050
Total Assets at period end			
Aggregate motor vehicle dealerships	215,931	196,948	207,163
Corporate and non-trading units	115,410	97,116	109,729
Consolidated Group Total Assets	331,341	294,064	316,892

15. Capital commitments & contingent liabilities

	6 months to 31 Dec 2017 \$'000	6 months to 31 Dec 2016 \$'000	12 months to 30 June 2017 \$'000
Contingent liabilities	-	-	-

WorkSafe NZ is taking legal action against Agricentre South Limited (Agricentre), a wholly-owned subsidiary, in relation to an accident in April 2016 at the workplace of a customer involving a tractor owned by Agricentre. As the legal process, which was initiated in March 2017, is still not resolved, the extent to which Agricentre may be held responsible for the accident remains uncertain and it is not possible to reliably measure the value of penalties (if any) the Court may impose. The Board of Directors is satisfied that appropriate provisions are in place.

Capital commitments for new and developments to existing dealership facilities	5,518	3,497	3,726
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16. Events after the reporting date

On 20 February 2018 the Company announced an interim dividend of 15.0 cents per share payable on 16 April 2018. There have been no other significant events after the reporting date (31 December 2016: NIL, 30 June 2017: NIL).



The Colonial Motor Company Limited

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