Combined Motor Holdings Limited

CMH GROUP

(Registration number: 1965/000270/06) (Share code: CMH ISIN: ZAE000088050) ("the Company" or "the Group")

www.cmh.co.za

AUDITED RESULTS FOR THE YEAR ENDED 28 FEBRUARY 2009

ABRIDGED GROUP INCOME STATEMENT

	Audited 28 February 2009 R'000	Change %	Audited 29 February 2008 R'000
Revenue	**6 581 641**		8 811 995
Cost of sales	**(5 483 271)**		(7 486 603)
Gross profit	**1 098 370**		1 325 392
Other income	**3 100**		12 698
Impairment of goodwill	**(21 572)**		(10 400)
Selling and administration expenses	**(1 033 520)**		(1 115 453)
Operating profit	**46 378**	(78)	212 237
Investment income	**17 142**		7 218
Finance costs	**(50 437)**		(52 690)
Profit before taxation	**13 083**	(92)	166 765
Taxation	**(11 023)**	(80)	(54 857)
Net profit	**2 060**	(98)	111 908
Attributable to:			
Equity holders of the Company	**8 127**	(92)	98 173
Minority shareholders	**(6 067)**	(144)	13 735
	2 060	(98)	111 908
Reconciliation of headline earnings			
Net profit	**2 060**		111 908
Non-trading items			
– capital profit	**(100)**		(2 750)
less: capital gains tax	**14**		109
	(86)		(2 641)
– impairment of goodwill	**21 572**		10 400
Headline earnings	**23 546**	(80)	119 667
Headline earnings attributable to:			
Equity holders of the Company	**26 390**	(75)	104 768
Minority shareholders	**(2 844)**		14 899
	23 546		119 667

ABRIDGED GROUP CASH FLOW STATEMENT

	Audited 28 February 2009 R'000	Audited 29 February 2008 R'000
Operating profit adjusted for non-cash items	**100 846**	244 488
Working capital changes:		
Movement in inventory	**216 713**	29 115
Movement in trade and other receivables	**64 684**	8 058
Movement in trade and other payables	**(211 180)**	50 036
Cash generated from operations	**171 063**	331 697
Investment income received	**17 142**	7 218
Finance costs paid	**(50 437)**	(52 690)
Dividends paid	**(30 094)**	(215 841)
Taxation paid	**(38 834)**	(106 709)
Cash flow from operating activities	**68 840**	(36 325)
Cash flow from investing activities	**(47 770)**	(41 735)
Cash flow from financing activities	**(32 548)**	(28 985)
Net cash flow for year	**(11 478)**	(107 045)
Cash and cash equivalents at beginning of year	**223 468**	330 513
Cash and cash equivalents at end of year	**211 990**	223 468

ABRIDGED GROUP BALANCE SHEET

	Audited 28 February 2009 R'000	Audited 29 February 2008 R'000
Assets		
Non-current assets		
Plant and equipment	**75 069**	71 717
Goodwill	**123 001**	144 346
Investments	**146 848**	124 379
Deferred taxation	**43 535**	36 396
	388 453	376 838
Current assets	**1 579 834**	1 871 007
Total assets	**1 968 287**	2 247 845
Equity and liabilities		
Capital and reserves		
Share capital and reserves	**451 905**	472 716
Minority interest	**(433)**	12 121
Total equity	**451 472**	484 837
Non-current liabilities		
Advance from minority shareholders	**224 792**	252 317
Interest-bearing borrowings	**3 670**	5 314
Assurance funds	**19 458**	26 217
Lease liabilities	**88 613**	77 905
	336 533	361 753
Current liabilities	**1 180 282**	1 401 255
Total equity and liabilities	**1 968 287**	2 247 845
Net asset value per share (cents)	**420**	451

GROUP FINANCIAL HIGHLIGHTS

		Audited 28 February 2009	Change %	Audited 29 February 2008
Revenue	(R'000)	6 581 641	(25)	8 811 995
Operating profit	(R'000)	46 378	(78)	212 237
Earnings per share	(cents)	7,6	(92)	91,6
Headline earnings per share	(cents)	24,6	(75)	97,7
Final dividend per share	(cents)	–	(100)	28,0
Total assets	(R'000)	1 968 287	(12)	2 247 845
Year-end cash resources	(R'000)	211 990	(5)	223 468

COMMENTARY ON RESULTS

The year was undoubtedly the most difficult the Group has experienced. The challenges presented during the previous year have been exacerbated by the global economic crisis, triggered by the sub-prime loans meltdown in the United States.

Dominated by a 25% fall in revenue, primarily as the result of the slump in vehicle sales, operating profit fell 78% to R46,4 million, and attributable headline earnings declined 75% to R26,4 million.

The gross margin on revenue increased from 15,0% to 16,7%. Despite an inflation rate of 8%, operating expenses were reduced by 7%, and tight control over cash resources enabled a 27% reduction in net interest costs. However, in the face of the 25% decline in revenue, it was inevitable that profit before taxation would be severely impacted.

One positive feature of the year's trading was the Group's firm grasp on its cash flow. Cash generated from operations enabled the Group to fund a dividend payment of R30 million in June 2008, repay loans and dividends of R31,5 million to its BEE partner, and still end the year with cash resources of R212 million (2008: R223 million).

Despite the disappointing earnings, the Group's balance sheet remains sound, and the cash flow statement records strong cash generation. Interest-bearing debt is a negligible R5 million and the Group's current ratio and quick ratio have been constant at 1,3 and 0,4 respectively for a number of years.

With an eye on funding working capital for future expansion, and in view of the ever-tightening lending criteria being applied by finance houses, the directors have recommended that no dividend be paid in respect of the year under review.

RETAIL MOTOR

National passenger vehicle sales declined 23% and light commercial vehicles 17% during the financial year, and it is estimated that the used market reduced similarly. The principal reasons for the fall were the high debt levels under which consumers were labouring, and the consequent reluctance of the motor finance houses to extend further credit during a period when they too were facing high write-offs and an increased cost of funds. Whilst customer interest on showroom floors was high, the credit approval levels fell from approximately 55% to below 25%. Customers that gained approval were charged higher interest rates than they previously enjoyed, with the result that the first 1,5 percentage points drop in the prime rate was offset by the higher bank margin.

The three highest value overhead expenses in a typical dealership are staff costs, property rentals and demonstration vehicles/petrol. Since its peak during mid-2007, the Group's headcount in this segment has been reduced by 640 to its present level of 2005 employees. This reduction has been mainly effected by the closure of unprofitable operations and the trimming of backroom unproductive staff. Only a small portion represents sales and/or workshop productive functions. Over the same period the number of properties occupied by the Group has been cut by 17 through termination of businesses or rationalisation and sharing of facilities. In some instances the lease rentals have had to be carried although the premises were vacant, but all such costs, and the expected future commitments, have been expensed in the current year. The fleet of demonstration vehicles, for both customer and staff use, has been reduced by 44%.

Fortunately the Group's workshops and parts departments performed well, providing consistent returns and a buffer against the more volatile sales departments.

MARINE AND LEISURE

The depressed economic conditions were keenly felt by this division, which operates largely at the luxury end of the market. Revenue fell 42%, forcing a major overhaul of the business and its operating locations. The headcount of 134 in mid-2007 has been reduced to 59, operating locations have been cut from five to two, and assets from R157 million to R122 million. A further net asset reduction of R15 million is expected in the next six months. This division markets quality brands and, with its low cost base, has the capacity to return substantial margins when the economy turns.

CAR HIRE

The new trading and brand name "First Car Rental" was successfully launched in April 2008, and mid-year the division concluded an alliance with Sixt Car Rental, a major European brand based in Germany.

Although revenue increased 18%, higher interest costs of holding the vehicle fleet, coupled with lower resale values in the depressed used vehicle market, eroded margins to the extent that the division ended the year with an operating loss of R1 million. Daily hire rates remain competitive and have shown little growth over the past 18 months, and the international credit crisis has affected foreign tourism.

On the positive side, the recent interest rate reductions have had, and will continue to have, a favourable effect. Each one percentage point reduction saves the division R4,1 million annually. In addition, the major sporting events scheduled in the country during this and next year will boost revenue.

FINANCIAL SERVICES

As predicted, revenue from the sale of insurance policies has reduced following the National Credit Act's prohibition of the sale of term policies. The sale of monthly policies has increased, but with the high early termination rate being experienced, it is unlikely that future income levels will improve materially.

PROSPECTS

Whilst it appears that the retail motor market has bottomed, uncertainty surrounds the timing of the upturn. National sales are expected to be down on last year, with the first half being in line with the second half of calendar 2008, and modest growth during the third and fourth quarters. The Group's budget predicts little or no volume growth in the retail motor and marine and leisure divisions. Substantial restructuring charges, principally retrenchment and early lease termination costs, have been fully accounted for and will reduce operating costs going forward. Lower interest rates are expected to reduce finance costs. The net result is that a relatively modest increase in sales volumes could yield a substantial bottom line improvement. When this volume growth will materialise is difficult to predict.

DIVIDEND

The directors have recommended that no dividend be paid in respect of the year under review.

BASIS OF PREPARATION

The results of the Group for the year ended 28 February 2009 have been prepared in accordance with IAS 34: Interim Financial Reporting, International Financial Reporting Standards, the Listings Requirements of the JSE Limited and Schedule 4 of the Companies Act of South Africa. The accounting policies of the Group have been consistently applied to these results and are the same as those applied to the results at 29 February 2008.

CORPORATE GOVERNANCE

The Group is committed to maintaining the high standards of governance as embodied in the King Report on Corporate Governance and complies with the significant principles of both the Report and the JSE Limited Listings Requirements.

The information has been audited by PricewaterhouseCoopers Inc., the Group's external auditor. A copy of their audit report is available for inspection at the Company's registered office.

By order of the board of directors

SK JACKSON BCom (Hons) (Tax Law), CA(SA)

Company Secretary

23 April 2009

REGISTERED OFFICE

1 Wilton Crescent, Umhlanga Ridge, 4319

TRANSFER SECRETARIES

Computershare Investor Services (Proprietary) Limited
PO Box 61051, Marshalltown, 2107

SPONSOR

PricewaterhouseCoopers Corporate Finance (Proprietary) Limited
Private Bag X36, Sunninghill, 2157

DIRECTORS

M Zimmerman (Chairman), JD McIntosh (CEO), LCZ Cele, MPD Conway, JTM Edwards, L Gadd, SK Jackson, VP Khanyile, RTAC Nethercott, JW Alderslade (alternate)

GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Non-distributable reserve R'000	Share-based payment reserve R'000	Retained earnings R'000	Attributable to equity holders of the Company R'000	Minority interest R'000	Total equity R'000
At 28 February 2007	18 757	5 896	4 340	409 096	438 089	12 217	450 306
Issue of shares	1 305				1 305		1 305
Net profit				98 173	98 173	13 735	111 908
Dividends paid				(65 988)	(65 988)	(13 594)	(79 582)
Share-based payment reserve			1 137		1 137		1 137
Purchase of minority interest						(237)	(237)
At 29 February 2008	20 062	5 896	5 477	441 281	472 716	12 121	484 837
Issue of shares	447				447		447
Net profit				8 127	8 127	(6 067)	2 060
Dividends paid				(30 094)	(30 094)	(6 398)	(36 492)
Share-based payment reserve			709		709		709
Purchase of minority interest						(89)	(89)
At 28 February 2009	20 509	5 896	6 186	419 314	451 905	(433)	451 472

SEGMENTAL ANALYSIS

	TOTAL 2009 R'000	TOTAL 2008 R'000	RETAIL MOTOR 2009 R'000	RETAIL MOTOR 2008 R'000	CAR HIRE 2009 R'000	CAR HIRE 2008 R'000	MARINE AND LEISURE 2009 R'000	MARINE AND LEISURE 2008 R'000	FINANCIAL SERVICES 2009 R'000	FINANCIAL SERVICES 2008 R'000	CORPORATE SERVICES 2009 R'000	CORPORATE SERVICES 2008 R'000
Revenue	**6 581 641**	8 811 995	**6 065 942**	8 132 421	**258 509**	219 789	**225 753**	388 503	**8 160**	23 865	**23 277**	47 417
Operating profit	**46 378**	212 237	**42 347**	163 797	**(1 020)**	9 790	**(9 268)**	10 281	**7 866**	24 584	**6 453**	3 785
Net finance costs	**(33 295)**	(45 472)	**(63 624)**	(86 274)	**2 832**	(1 737)	**(582)**	(7 913)	**2 968**	3 828	**25 111**	46 624
Profit before taxation	**13 083**	166 765	**(21 277)**	77 523	**1 812**	8 053	**(9 850)**	2 368	**10 834**	28 412	**31 564**	50 409
Total assets	**1 968 287**	2 247 845	**1 003 202**	1 208 618	**452 230**	485 786	**121 698**	157 356	**25 544**	44 847	**365 613**	351 238
Total liabilities	**1 516 815**	1 763 008	**739 542**	848 495	**466 579**	513 978	**34 706**	80 409	**19 475**	33 977	**256 513**	286 149
Number of employees	**2 418**	2 829	**2 005**	2 386	**293**	278	**59**	86	**3**	3	**58**	76