# The Colonial Motor Company Limited

# HALF YEAR REPORT

For Six Months Ended 31 December 2010

# The Colonial Motor Company Limited
# HALF YEAR REPORT

## For the Six Months Ended 31 December 2010

89 Courtenay Place
Wellington
25 February 2011

Dear Shareholder

Your Directors are pleased to advise you of the unaudited results of the Group for the six months ended 31 December 2010.

Group revenue was $232.2 million, up 8.4% compared to the $214.3 million in the previous comparable period. The profit after tax attributable to shareholders showed a greater improvement, rising by 38.4% to $3.6 million for the period, compared with $2.6 million in the six months to 31 December 2009.

As a general comment the consumer side of the market has continued to be constrained to a greater extent than anticipated while previously deferred fleet replacements have bolstered new vehicle numbers. Nationally, new vehicle sales for the 2010 year were 15% higher than in 2009. The increased Group revenue reflects this but was offset by a reduction in used vehicle sales, parts and service revenues. On the positive side, primary produce export activities are supporting stronger heavy truck and tractor sales.

For most of our Dealerships it has been a challenging period as the lower level of retail business has required finding further cost reductions and efficiencies. The early months of 2011 have shown no improvement in retail sentiment although it is expected to improve through the remainder of the year.

The earthquakes in Christchurch have complicated upgrading plans we have for Team Hutchinson Ford's Tuam Street property. The September earthquake inflicted a small amount of damage but, due to our central city location, meant we were unable to open for three days. Strengthening work undertaken in the 1970s did its job. The Boxing Day earthquake caused more structural damage but did not disrupt business. We have been working with architects and engineers to find the best solution for the building, however the impact of last Tuesday's earthquake on the building has yet to be fully understood and assessed.

Advance Agricentre, the Case IH tractor dealership we opened in 2009, has expanded its business by acquiring the Otago Case IH dealership and now operates from Invercargill, Gore and Milton.

The format of the financial statements is consistent with last year. The accounting rule that required us to make the $6.4m deferred tax charge to profit in the last financial year has since been modified to exclude "investment property". This has no effect for us because all our properties are occupied by our dealerships and are consequently recorded as property, plant and equipment.

At the December board meeting John Wylie advised he wished to step down as Chairman at 31 January 2011. The Board elected J P (Jim) Gibbons as Chairman from that date. John continues on the board as an independent director.

The Directors have declared a fully-imputed interim dividend of 7.0 cents per share totalling $2.3m million to be paid on Monday, 4 April. This compares to a 6.0 cents per share ($2.0 million) interim dividend last year.

***For and on behalf of the Board***
***J P Gibbons***
***CHAIRMAN***

The Colonial Motor Company Limited

| The Colonial Motor Company Limited and Subsidiaries<br>Consolidated INCOME STATEMENT<br>For the Six Months ended 31 December 2010 | 6 Months to 31.12.10 $M | 6 Months to 31.12.09 $M | 12 Months to 30.06.10 $M |
|---|---|---|---|
| **Revenue** | | | |
| Sale of - Products | 204.957 | 185.987 | 378.801 |
| - Services | 23.781 | 24.872 | 48.745 |
| Other Income - Interest | 0.163 | 0.073 | 0.220 |
| - Other | 3.283 | 3.336 | 6.629 |
| **Total Revenue** | 232.184 | 214.268 | 434.395 |
| **Less Expenses** | | | |
| Cost of Products Sold | 183.304 | 165.954 | 338.386 |
| Remuneration of Staff | 26.515 | 27.237 | 53.120 |
| Depreciation & Amortisation | 1.542 | 1.779 | 3.428 |
| Property Occupation Costs | 4.771 | 4.964 | 9.584 |
| Marketing, Promotion & Training Costs | 2.038 | 2.211 | 4.427 |
| Other Operating Costs | 7.078 | 7.139 | 14.423 |
| Interest Cost | 1.559 | 1.427 | 2.694 |
| **Trading Profit before Tax** | 5.377 | 3.557 | 8.333 |
| Fair Value Revaluation of Property | - | - | (0.823) |
| Fair Value Revaluation of Investment | - | - | (0.165) |
| **Profit before Tax** | 5.377 | 3.557 | 7.345 |
| Less: Provision for Tax | | | |
| - Current | 1.608 | 1.067 | 2.292 |
| - Deferred | 0.064 | 0.014 | 0.042 |
| - Deferred (Depreciation Tax Change) | - | - | 6.383 |
| **Profit after Tax for the period** | 3.705 | 2.476 | (1.372) |
| **Attributable to - Shareholders** | **3.589** | **2.594** | **(1.241)** |
| - Non Controlling Interests | 0.116 | (0.118) | (0.131) |
| | 3.705 | 2.476 | (1.372) |
| **Trading Profit after Tax ($M)** | **3.589** | **2.594** | **6.130** |
| Dividends to Shareholders ($M) | 2.289 | 1.962 | 4.904 |
| Basic & Diluted Earnings per Share<br>(based on shares on issue from 18 January 2010) | | | |
| - Profit after Tax | 11.0 cents | 7.9 cents | (3.8 cents) |
| - Trading Profit after Tax | 11.0 cents | 7.9 cents | 18.8 cents |
| Basic & Diluted Earnings per Share<br>(based on weighted average shares outstanding during the period) | | | |
| - Profit after Tax | 11.0 cents | 9.3 cents | (4.1 cents) |
| - Trading Profit after Tax | 11.0 cents | 9.3 cents | 20.4 cents |
| Dividend per Share | 7.0 cents | 6.0 cents | 15.0 cents |
| Net Tangible Assets per Share (pre dividend) | $3.49 | $3.68 | $3.48 |

| The Colonial Motor Company Limited and Subsidiaries<br>Consolidated Statement of COMPREHENSIVE INCOME<br>For the Six Months ended 31 December 2010 | | 6 Months to 31.12.10 $M | 6 Months to 31.12.09 $M | 12 Months to 30.06.10 $M |
|---|---|---|---|---|
| **Profit after Tax for the period** | | 3.705 | 2.476 | (1.372) |
| Other comprehensive income | | | | |
| Realised Gain on Sale of Property | | - | - | 1.616 |
| Property Revaluation Reserve | | | | |
| | Fair Value movement | - | - | (2.555) |
| | Transfer Realised Gain | - | - | (1.675) |
| | Deferred Tax movement | (0.127) | (0.138) | 0.489 |
| Foreign Exchange Reserve | | | | |
| | Movement in effective hedge | (0.295) | 0.050 | (0.170) |
| | Deferred Tax movement | 0.079 | (0.014) | 0.051 |
| **Total Comprehensive Income** | | 3.362 | 2.374 | (3.616) |
| **Attributable to:** | **Shareholders** | **3.278** | **2.487** | **(3.466)** |
| : | Non Controlling Interests | 0.084 | (0.113) | (0.150) |
| | | 3.362 | 2.374 | (3.616) |

| The Colonial Motor Company Limited and Subsidiaries<br>Consolidated Statement of CHANGES IN EQUITY<br>For the Six Months ended 31 December 2010 | 6 Months to 31.12.10 $M | 6 Months to 31.12.09 $M | 12 Months to 30.06.10 $M |
|---|---|---|---|
| Total Equity at beginning of period | 117.340 | 125.424 | 125.424 |
| Total Comprehensive Income | 3.362 | 2.374 | (3.616) |
| Dividends paid to Shareholders | (2.942) | (2.526) | (4.468) |
| Dividend Paid to Non Controlling Interest | (0.150) | - | - |
| **Total Equity at end of period** | 117.610 | 125.272 | 117.340 |

| The Colonial Motor Company Limited and Subsidiaries<br>Consolidated Statement of CASH FLOWS<br>For the Six Months ended 31 December 2010 | | 6 Months to 31.12.10 $M | 6 Months to 31.12.09 $M | 12 Months to 30.06.10 $M |
|---|---|---|---|---|
| **Net Cash Flows from:** | | | | |
| Operating activities - | Inflows | 233.575 | 220.176 | 434.710 |
| - | Outflows | (227.010) | (211.683) | (417.251) |
| **Net Cash Flow from Operating Activities** | | 6.565 | 8.493 | 17.459 |
| Investing activities - | Inflows | 1.264 | 1.700 | 3.343 |
| - | Outflows | (2.301) | (2.509) | (4.757) |
| **Net Cash Flow from Investing Activities** | | (1.037) | (0.809) | (1.414) |
| Financing activities - | Inflows | 2.442 | - | 0.379 |
| - | Outflows | (5.843) | (6.053) | (13.468) |
| **Net Cash Flow from Financing Activities** | | (3.401) | (6.053) | (13.089) |
| Net increase/(decrease) in cash held | | 2.127 | 1.631 | 2.956 |
| Cash balance/(overdraft) at beginning of period | | 3.935 | 0.979 | 0.979 |
| **Cash balance/(overdraft) at end of period** | | 6.062 | 2.610 | 3.935 |

| The Colonial Motor Company Limited and Subsidiaries Consolidated BALANCE SHEET As at 31 December 2010 | Notes | 31.12.10 $M | 31.12.09 $M | 30.06.10 $M |
|---|---|---|---|---|
| **CURRENT LIABILITIES** | | | | |
| At Call Bank Borrowings | | 18.200 | 27.000 | 21.100 |
| Trade & Other Payables | | 16.609 | 15.720 | 22.900 |
| Provisions | | 0.694 | 0.644 | 0.677 |
| Tax Payable | | 0.531 | 0.087 | 0.374 |
| Financial Derivatives – Foreign Exchange | 7 | 0.486 | - | 0.251 |
| Financial Liabilities – Credit Contracts | 12 | 12.449 | 13.643 | 12.913 |
| Impairment Allowance – Credit Contracts | | 0.236 | 0.269 | 0.237 |
| Deposits | | 13.485 | 10.476 | 10.654 |
| **TOTAL CURRENT LIABILITIES** | | 62.690 | 67.839 | 69.106 |
| **NON CURRENT LIABILITIES** | | | | |
| Deferred Tax | 11 | 4.658 | - | 4.546 |
| Financial Liabilities – Credit Contracts | 12 | 16.346 | 16.673 | 15.880 |
| **TOTAL NON CURRENT LIABILITIES** | | 21.004 | 16.673 | 20.426 |
| **SHAREHOLDERS EQUITY** | | | | |
| Share Capital | | 15.968 | 3.375 | 15.968 |
| Property Revaluation Reserve | | 36.142 | 39.872 | 36.269 |
| Foreign Exchange Hedging Reserve | | (0.291) | 0.023 | (0.108) |
| Retained Earnings | | 64.345 | 80.453 | 63.699 |
| **TOTAL SHAREHOLDER EQUITY** | | 116.164 | 123.723 | 115.828 |
| Non Controlling Interest | | 1.446 | 1.549 | 1.512 |
| **TOTAL EQUITY** | | 117.610 | 125.272 | 117.340 |
| **TOTAL EQUITY AND LIABILITIES** | | 201.304 | 209.784 | 206.872 |
| **CURRENT ASSETS** | | | | |
| Cash & Bank Accounts | | 6.062 | 2.610 | 3.935 |
| Trade & Other Receivables | | 24.975 | 19.045 | 25.393 |
| Receivable - Sale of Property | | - | - | 2.600 |
| Inventory | | 48.095 | 55.553 | 52.268 |
| Financial Derivatives – Foreign Exchange | 7 | - | 0.019 | - |
| Financial Assets – Credit Contracts | 12 | 12.449 | 13.643 | 12.913 |
| **TOTAL CURRENT ASSETS** | | 91.581 | 90.870 | 97.109 |
| **NON CURRENT ASSETS** | | | | |
| Financial Assets – Credit Contracts | 12 | 16.346 | 16.673 | 15.880 |
| Goodwill | 10 | 1.838 | 1.838 | 1.838 |
| Intangible Assets | | 0.283 | 0.356 | 0.320 |
| Shares in Companies | | 0.935 | 1.100 | 0.935 |
| Deferred Tax | 11 | - | 1.172 | - |
| Property, Plant & Equipment | 13 | 90.321 | 97.775 | 90.790 |
| **TOTAL NON CURRENT ASSETS** | | 109.723 | 118.914 | 109.763 |
| **TOTAL ASSETS** | | 201.304 | 209.784 | 206.872 |

The restyled Australian built Kenworth trucks, K108 (left) and T408 (below) will be launched in New Zealand in the 2nd quarter of 2011.

The "Boss" new Ford FPV Falcon GT, at South Auckland Motors, with the new 5.0 litre all alloy, DOHC, supercharged 'Coyote' V8 – 335 kW of power and 570 Nm of torque.


Mazda's family about to grow with the March launch of the new 4WD CX9 (7 seater) left, pictured with the current CX7. The CX7 is available in 2 and 4 wheel drive.

Colin Cliff, a retired director of the Company recently celebrated his 90th birthday with some CMC friends.

Pictured back row: Roger Gardner, John Wylie, Ken Mullan, John Blyth,
Front row: John Emery, Colin Cliff, Peter Gibbons.
Between them there is an average of 45 years service to CMC.

*Macaulay Motors celebrated 75 years in 2010 with a staff reunion and a parade of cars represented by a car for every year of operation. The parade, organised by Sales Manager Peter Michels, was watched by a large crowd over the entire route.*


*Gold watches were awarded in 2010 for 25 years continuous service.*
*Grant Price, Carolyn Graham, John Scott and Bruce Woodd.*

*Also receiving watches around the Group in 2010 were: John Donnell – Avon City Ford; Ron van Herpt and Alan Cross – Team Hutchinson Ford; Stephen Jensen and Graham Stewart – Capital City Motors and Stephen Simpson – Dunedin City Motors.*


*Spring 2010 in Southland*
*- to be remembered.*

*Team Hutchinson Ford leased carpark space from the Christchurch City Council when the Council moved to its new building. Extra carparking for service customers is like "seventh heaven" for the dealership team. Note September earthquake damage on the 'peak' of the building.*

*(Photo courtesy of Wairarapa Times Age)*

*Bob Mellor, an adult apprentice at Fagan Motors won the Wairarapa and Wellington Regional MTA Supreme Apprentice award. The Group currently employs and trains over 60 apprentices.*


*Tim Herbert of Dunedin City Motors was MTA Otago Apprentice of the Year.*

*Race inspired Ford heritage South Canterbury style. Lotus Cortina, Sierra RS Cosworth and Focus RS.*

## ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS
**For the Six Months ended 31 December 2010**

**1. Basis of Preparation**

The Financial Statements contained in this Half Year Report 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 profit oriented entities. 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 2010 which was prepared in accordance with International Financial Reporting Standards (IFRS).

These consolidated interim financial statements were approved for issue by the Board of Directors on 25 February 2011.

**2. Accounting Policies**

The accounting policies and methods of computation of The Colonial Motor Company and its subsidiaries and in substance subsidiaries (the Group) results have been applied on a basis consistent with those of the previous Half Year Report and as disclosed in the audited 30 June 2010 annual Financial Statements, with the exception of land and buildings (that are not revalued at the half year and remain at the values disclosed at 30 June 2010).

**3. Shares on Issue**

The number of shares on issue at 31 December 2010 was 32,694,632 (31 December 2009: 27,850,910, 30 June 2010: 32,694,632). The Company made a taxable bonus issue of 4,843,722 shares on 18 January 2010 on the basis of one new share for every 5.75 existing shares.

**4. Unaudited Financial Statements**

These Half Year Financial Statements for the six months to 31 December 2010 have not been audited.

**5. Non Controlling Interest**

The Parent Company shareholding in Southpac Trucks Limited remains unchanged from 31 December 2009 and 30 June 2010 at 85%. All other subsidiaries are wholly owned.

**6. Capital Commitments & Contingent Liabilities**

As at 31 December 2010 the Group had Capital Commitments of $ NIL (31 December 2009: $ NIL, 30 June 2010: $ NIL).

Contingent Liabilities relating to various Parent Company guarantees are unchanged from 30 June 2010. Full details are disclosed in the Annual Report for the year ended 30 June 2010.

**7. Financial Derivatives – Foreign Exchange**

These Half Year Financial Statements are presented in New Zealand dollars (rounded to the nearest thousand) which is the functional and presentation currency of the Group.

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 Equity and form the Foreign Exchange Hedging Reserve and those that do not so qualify are recognised through the Income Statement.

Forward Exchange Contracts outstanding at 31 December 2010 were $17.222m (31 December 2009: $3.513m, 30 June 2010: $19.476m).

**8. Valuation of Inventory**

New and used vehicles have been valued at fair 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 stock.

Stock writedowns for the six months ended 31 December 2010 were $0.036m (31 December 2009: $0.062m, 30 June 2010: $0.512m).

**9. Bailment Agreement**

New Ford and Mazda vehicles are funded by UDC Finance Limited under a bailment plan whereby these vehicles are owned by UDC and not included in the inventory or creditors of either the Dealership subsidiaries or the Group. There is no contractual obligation to pay UDC for these vehicles until they are sold.

The cost of vehicles funded by UDC at 31 December 2010 was $40.0m (31 December 2009: $25.7m, 30 June 2010 $32.5m).

**10. Goodwill**

Goodwill will be subject to annual impairment testing, or when events indicate that the carrying amount may not be recoverable. The carrying value was reviewed as at 31 December and considered to be fair value.

**11. 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 $4.658m at balance date (31 December 2009: $1.172m liability, 30 June 2010: $4.546m liability). .

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

**12. Financial Assets & Liabilities – Credit Contracts**

The Group holds credit contract agreements with Motor Trade Finances Ltd (MTF) which are carried at their net settlement value. The Group had outstanding vehicle financing agreements with MTF of $28.795m at 31 December 2010 (31 December 2009: $30.316m, 30 June 2010: $28.793m).

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 Company's 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.

**13. 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. 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. Land is not depreciated.

**14. Segment Reporting**

The CMC 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. 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 CMC 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 31.12.10 $M | 6 Months to 31.12.09 $M | 12 Months to 30.06.10 $M |
|---|---|---|---|
| **Revenue** | | | |
| Aggregate motor vehicle dealerships | 228.666 | 210.649 | 427.176 |
| Corporate and non-trading units | 3.518 | 3.619 | 7.219 |
| Consolidated Group revenue | 232.184 | 214.268 | 434.395 |
| **Trading profit before tax** | | | |
| Aggregate motor vehicle dealerships | 3.860 | 1.924 | 5.094 |
| Corporate and non-trading units | 1.517 | 1.633 | 3.239 |
| Consolidated Group trading profit before tax. | 5.377 | 3.557 | 8.333 |
| **Total Assets** | | | |
| Aggregate motor vehicle dealerships | 117.166 | 119.804 | 121.029 |
| Corporate and non-trading units | 84.138 | 89.980 | 85.843 |
| Consolidated Group Total Assets | 201.304 | 209.784 | 206.872 |

## 15. Reconciliation of Cash Flows to Operating Profit

| | 31.12.10 $M | 31.12.09 $M | 30.06.10 $M |
|---|---|---|---|
| Net Profit after Tax | 3.589 | 2.594 | (1.241) |
| Adjustments for Non Cash Items: | | | |
| Depreciation and Amortisation | 1.542 | 1.779 | 3.427 |
| Revaluation Decrease of Property | - | - | 0.823 |
| Movements in Provisions | 0.144 | (1.129) | 5.606 |
| Fair Value Movement of Investment | - | - | 0.165 |
| Movements in Working Capital: | | | |
| Inventory | 4.174 | 2.331 | 5.615 |
| Payables and Deposits | (3.460) | (3.417) | 3.895 |
| Receivables | 3.018 | 5.908 | (0.394) |
| Adjustment for Items classified as Investing & Financing Activities | (2.442) | 0.427 | (0.437) |
| **Net Cash Flow from Operating Activities** | **6.565** | **8.493** | **17.459** |

## 16. Subsequent Events

On 25 February 2011 the Company announced an interim dividend of 7.0 cents per share payable on 4 April 2011.

The full impact of the earthquake in Christchurch on Tuesday, 22 February 2011 has not yet been fully understood or assessed.

There have been no other significant post balance day events.

The Colonial Motor Company Limited
89 Courtenay Place, PO Box 6159, Marion Square, Wellington 6141. Telephone (04) 384-9734
www.colmotor.co.nz