

Turners Automotive Group delivers a solid 28% increase in net profit after tax

- 28% increase in net profit after tax with strong outperformance from the insurance business offsetting a country-wide slowdown in the automotive retail sector
- Further quarterly dividend of 4cps declared taking total half year dividends to 8cps
- Continued focus on optimising real estate assets delivers \$3.4m gain from the sale of Wiri holding
- Industry-wide headwinds emerging in the automotive retail sector with a potential downside impact of 5 - 10% to forecasted FY19 pre-tax profits if current market conditions persist
- On-Market Share Buyback of up to 5% of issued shares announced with current share price considered undervalued by Directors

Turners Automotive Group has delivered a 28% increase in profit for the six months to 30 September 2018, driven by a continuing outperformance from the insurance business and a \$3.4m gain on the sale of an Auckland property, offsetting headwinds in the Auckland automotive retail market.

Operating revenue was \$164.6m for the period, in line with the previous year, with the cost of goods sold decreasing by 9% to \$65.3m. This reflects more sales on consignment through Turners' auctions and therefore less owned stock.

Total revenue of \$168.3m includes \$3.4m from the sale of the property in Wiri, Auckland in September 2018, which has been leased back in line with Turners' property strategy.

Net Profit Before Tax (NPBT), which is the basis for Turners' full year guidance, increased 18% to \$16.8m, with Net Profit After Tax (NPAT) of \$12.9m. Earnings per share were up 14% to 15.19 cents per share for the half year. Shareholder equity increased to \$217.3m as at 30 September 2018.

The Board has declared a further quarterly fully imputed dividend of 4.0 cps, taking half year dividends to 8.0 cents per share. This is in line with Turners' enhanced dividend policy of a payout ratio of 50% to 60% of NPAT, with the Board expecting to declare full year fully imputed dividends of a minimum 17 cents per share.

Chairman of Turners, Grant Baker, commented: "The business has shown some resilience through tough market conditions in Q1 and bounced back strongly in Q2. The diversified revenue streams have really demonstrated their value through the first half of this year. However, market conditions, particularly in the used import car market, remain challenging and pressure is being placed on vehicle margins right across the industry. Within the key market of Auckland we have seen a material reduction in demand which we attribute to the cost pressures being experienced by many people across the Auckland region in fuel prices, rents, and other household costs.

"If October market conditions continue to be the environment we are working in, NPBT could be impacted by 5 – 10% from our previous guidance range of \$34m to \$36m."

Trading Performance

Turners operates an integrated business helping retail and wholesale customers across three divisions – Automotive Retail, Finance and Insurance, and Debt Management Services. This model provides a number of advantages, from the ability to offer an end-to-end customer journey and higher margin transactions in controlled channels, through to better customer relationships, diversification of earnings and a balanced mix of annuity and transactional revenue.

Automotive Retail (Turners Group, Buy Right Cars): Revenue \$111.8m down 1%, Op profit \$8.0m down 9%

Unit sales and market share have grown in both the Turners and Buy Right cars business in the first half. Turners Group delivered an improved year on year result, while Buy Right Cars delivered a lower than expected result due to pressure on margins and volumes.

The import market is facing headwinds with challenges on both the demand and supply side. The number of used imports is down and landing costs have increased due to stricter controls following the stink bug issue. This is primarily affecting Buy Right Cars, which has a higher proportion of import sales.

Demand in the highly competitive Auckland market, where 9 of the 10 Buy Right Cars sites are located, has also weakened, with pressures from increased living and fuel costs. A range of initiatives are in place to drive customers instore and leverage the high consumer trust in the Turners' brand.

Investment is being made into expanding and optimising the national retail network, training and development of sales staff, and digital initiatives to offset the softer conditions and drive sales. New sites in Wellington City, New Plymouth and Hamilton are all expected to contribute to operating profit in the second half of FY19.

The challenging conditions will inevitably lead to consolidation in the dealer market which will provide Turners with further opportunity in the medium term, as both Turners and Buy Right Cars focus on building market share.

Finance (Oxford Finance): Revenue \$21.6m up 21%, Op profit \$5.4m down 2%

Excluding the MTF channel, Oxford Finance performed well in the half year, with the focus on higher quality lending delivering volumes ahead of budget and the prior year. The primary impact on results was the impairment levels for MTF non-recourse loans which have been higher than anticipated. Stricter lending criteria have been introduced and MTF lending processes and credit scoring systems have also been reviewed to ensure robustness, with changes made progressively over the past six months. While the performance of the non-recourse loan offer has been disappointing, MTF's network of over 300 dealers and franchisees remains an attractive channel for Oxford Finance.

The network of dealers selling Oxford Finance products continues to grow with an additional 120 dealers on-boarded in the first half. Improvements to the Autoapp online loan approval platform are making it easier and faster for dealers and customers to gain a response on loan applications.

From September, all loans originating through Turners Cars have been directed into Oxford Finance. This will see circa \$4 million a month of high quality lending directed into Oxford, with the benefit to the wider group meaning more margin and an improving risk profile.

Insurance (Autosure): Revenue \$25.7m up 15%, Op profit \$6.4m up 144%

The insurance business continues to go from strength to strength following the acquisition of Autosure in FY18. Good progress is being made on claims costs and ratios, and premium is growing as risk is more appropriately priced.

The focus is on identifying further opportunities for claims efficiencies and cost reductions. Fintech will play an important role in this and Autosure insurance products are now being integrated into AutoApp digital finance selling platform, making it easier for dealers to transact both insurance and finance products through the one system.

Debt Management (EC Credit Control): Revenue \$9.3m down 9%, Op profit \$3.1m down 10%

The softer half year result was primarily due to the loss of a large Australian customer which has insured its collections services.

There has been solid growth in the New Zealand corporate debt market from both new and existing customers, with debt load up 20% on FY18. In addition, record monthly sales of SME products are being seen. The Australian debt market offers a significantly larger opportunity but is more challenging, and additional resource is being put into Australia to improve penetration. Technology is enabling more efficient and effective debt collection, such as the dialler technology and the development of a debtor scorecard to assist with improving collection results.

Funding and Capital Management

Turners has strong and diversified funding arrangements in place, with headroom for forecast business growth. The securitisation warehouse has recently been extended to \$200m, and the new banking syndication with ASB and BNZ is working effectively. Pleasingly, the replacement three year bond programme was fully subscribed to \$25 million.

The Board continues to consider that Turners' share price does not reflect the fundamental value of the business and is not consistent with valuations from analysts or other independent advisors. Therefore, the company is announcing its intention to undertake an On-Market Share Buyback programme of up to 5% of shares on issue.

Grant Baker commented: "The Board believes the purchase of company shares, which are priced significantly below their intrinsic value, is an appropriate use of capital and will be of benefit to shareholders. We are confident in the long term prospects for solid and improving group earnings resulting in increasing balance sheet strength. This positive outlook supports the Share Buyback initiative"

CEO Comment

CEO of Turners, Todd Hunter, said: "The building blocks put in place in FY18 have created a simplified and more effective business with common operating and funding platforms.

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“We are continuing to realise the benefits of our integrated business model and are investing into training and development, fintech, product innovation and the customer experience. We have a wealth of valuable data within our business and are leveraging this to engage with our customers, deliver better service and identify new opportunities to do what we do better.

“The investments we are making into people, property and our businesses will deliver further benefits in the second half and even though we have some market dynamics which are currently problematic, we are building market share, growing our footprint, and improving our customer offering which gives us real confidence in our strategy and long term prospects.”

ENDS

About Turners

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

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TURNERS AUTOMOTIVE GROUP LIMITED**Results for announcement to the market**

| | | |
|--|-------------------------------|-----------------------------|
| Reporting Period | 6 months to 30 September 2018 | |
| Previous Reporting Period | 6 months to 30 September 2017 | |
| | Amount (NZD000s) | Percentage change |
| Revenue from ordinary activities | 168,291 | 3% |
| Operating profit after tax - ordinary activities | 12,885 | 28% |
| Net profit attributable to security holders | 12,756 | 28% |
| Interim Dividend | Amount per security | Imputed amount per security |
| | \$0.04000 | \$0.01556 |
| Record Date | 22 January 2019 | |
| Dividend Payment Date | 30 January 2019 | |
| Comments: | | |

TURNERS AUTOMOTIVE GROUP LIMITED

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

| | Six months ended 30/09/2018 Unaudited \$'000 | Six months ended 30/09/2017 Unaudited \$'000 | Year ended 31/03/2018 Audited \$'000 |
|--|--|--|--|
| Revenue from continuing operations | 164,573 | 162,979 | 325,047 |
| Other income | 3,718 | 863 | 5,423 |
| Cost of goods sold | (65,274) | (71,430) | (137,332) |
| Interest expense | (7,975) | (6,532) | (14,344) |
| Impairment provision expense | (3,951) | (2,276) | (6,380) |
| Subcontracted services expense | (6,839) | (5,375) | (10,777) |
| Employee benefits (short term) | (27,108) | (25,589) | (51,911) |
| Commission | (6,943) | (5,439) | (12,107) |
| Advertising expense | (1,963) | (1,905) | (4,001) |
| Depreciation and amortisation expense | (2,706) | (2,689) | (5,627) |
| Property and related expenses | (5,693) | (5,118) | (10,644) |
| Systems maintenance | (784) | (870) | (1,822) |
| Claims | (13,527) | (15,920) | (32,021) |
| Other expenses | (8,731) | (6,455) | (12,371) |
| Profit before taxation | 16,797 | 14,244 | 31,133 |
| Taxation expense | (3,912) | (4,213) | (7,773) |
| Profit from continuing operations | 12,885 | 10,031 | 23,360 |
| Other comprehensive income for the year (which may subsequently be reclassified to profit/loss), net of tax | | | |
| Cash flow hedges | (121) | (43) | (170) |
| Foreign currency translation differences | (8) | - | 2 |
| Total other comprehensive income for the year | (129) | (43) | (168) |
| Total comprehensive income for the year | 12,756 | 9,988 | 23,192 |
| Earnings per share (cents per share) | | | |
| Basic earnings per share | 15.19 | 13.36 | 29.26 |
| Diluted earnings per share | 14.89 | 13.24 | 28.87 |

TURNERS AUTOMOTIVE GROUP LIMITED

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

| | Share Capital \$'000 | Share Options \$'000 | Translation Reserve \$'000 | Cash flow hedge reserve \$'000 | Retained Earnings \$'000 | Total \$'000 |
|---|----------------------------|----------------------------|----------------------------------|---|--------------------------------|-----------------|
| Balance at 31 March 2017 (audited) | 168,809 | 208 | (23) | 6 | 2,716 | 171,716 |
| <i>Transactions with shareholders in their capacity as owners</i> | | | | | | |
| Capital contributions (net of issue costs) | 25,149 | - | - | - | - | 25,149 |
| Employee share based payments | - | 217 | - | - | - | 217 |
| Dividend paid | - | - | - | - | (6,334) | (6,334) |
| Total transactions with shareholders in their capacity as owners | 25,149 | 217 | - | - | (6,334) | 19,032 |
| <i>Comprehensive income</i> | | | | | | |
| Profit | - | - | - | - | 10,031 | 10,031 |
| Other comprehensive income | - | - | - | (43) | - | (43) |
| Total comprehensive income for the period, net of tax | - | - | - | (43) | 10,031 | 9,988 |
| Balance at 30 September 2017 (unaudited) | 193,958 | 425 | (23) | (37) | 6,413 | 200,736 |
| <i>Transactions with shareholders in their capacity as owners</i> | | | | | | |
| Capital contributions (net of issue costs) | 5,190 | - | - | - | - | 5,190 |
| Employee share based payments | - | 276 | - | - | - | 276 |
| Dividend paid | - | - | - | - | (5,083) | (5,083) |
| Total transactions with shareholders in their capacity as owners | 5,190 | 276 | - | - | (5,083) | 383 |
| <i>Comprehensive income</i> | | | | | | |
| Profit | - | - | - | - | 13,329 | 13,329 |
| Other comprehensive income | - | - | 2 | (127) | - | (125) |
| Total comprehensive income for the period, net of tax | - | - | 2 | (127) | 13,329 | 13,204 |
| Balance at 31 March 2018 (audited) | 199,148 | 701 | (21) | (164) | 14,659 | 214,323 |
| <i>Change in accounting policy</i> | - | - | - | - | (1,839) | (1,839) |
| <i>Transactions with shareholders in their capacity as owners</i> | | | | | | |
| Employee share based payments | - | 163 | - | - | - | 163 |
| Dividend paid | - | - | - | - | (8,056) | (8,056) |
| Total transactions with shareholders in their capacity as owners | - | 163 | - | - | (8,056) | (7,893) |
| <i>Comprehensive income</i> | | | | | | |
| Profit | - | - | - | - | 12,885 | 12,885 |
| Other comprehensive income | - | - | (8) | (121) | - | (129) |
| Total comprehensive income for the period, net of tax | - | - | (8) | (121) | 12,885 | 12,756 |
| Balance at 30 September 2018 (unaudited) | 199,148 | 864 | (29) | (285) | 17,649 | 217,347 |

TURNERS AUTOMOTIVE GROUP LIMITED

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

| | 30/09/2018 | 30/09/2017 | 31/03/2018 |
|--|----------------|----------------|----------------|
| | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 24,085 | 69,472 | 25,145 |
| Financial assets at fair value through profit or loss | | | |
| - Insurance | 51,693 | 7,345 | 49,749 |
| - Other | 3,579 | 3,620 | 3,629 |
| Trade receivables | 11,505 | 12,095 | 11,323 |
| Inventory | 42,877 | 42,143 | 38,596 |
| Finance receivables | 290,091 | 269,229 | 289,799 |
| Other receivables and deferred expenses | 14,291 | 10,238 | 11,747 |
| Reverse annuity mortgages | 9,287 | 8,967 | 9,997 |
| Investment property | 4,820 | 4,000 | 4,820 |
| Property, plant and equipment | 35,122 | 23,736 | 35,945 |
| Intangible assets | 170,843 | 171,527 | 170,982 |
| Total assets | 658,193 | 622,372 | 651,732 |
| Liabilities | | | |
| Other payables | 28,010 | 29,721 | 34,875 |
| Financial liability at fair value through profit or loss | 174 | 2,767 | 226 |
| Deferred revenue | 6,113 | 5,766 | 5,506 |
| Deferred tax | 17,614 | 20,044 | 18,786 |
| Tax payable | 856 | 1,681 | 5,029 |
| Derivative financial instruments | 295 | 43 | 111 |
| Borrowings | 330,291 | 306,786 | 317,373 |
| Life investment contract liabilities | 7,573 | 8,079 | 7,127 |
| Life insurance contract liabilities | 49,920 | 46,749 | 48,376 |
| Total liabilities | 440,846 | 421,636 | 437,409 |
| Shareholders' equity | | | |
| Share capital | 199,148 | 193,958 | 199,148 |
| Other reserves | 550 | 365 | 516 |
| Retained earnings | 17,649 | 6,413 | 14,659 |
| Total shareholders' equity | 217,347 | 200,736 | 214,323 |
| Total shareholders' equity and liabilities | 658,193 | 622,372 | 651,732 |
| Total assets per share (\$) | 7.76 | 7.50 | 7.69 |
| Net tangible assets (\$) | 0.76 | 0.59 | 0.73 |

The Group's insurance business is required to comply with the solvency standards for licensed insurers issued by the Reserve Bank of New Zealand. The solvency standards specify the level of assets the insurance business is required to hold in order to meet solvency requirements, consequently all cash and cash equivalents and financial assets at fair value through profit or loss held in the insurance business may not be available for use by the wider Group. The Group's insurance business' cash and cash equivalents at 30 September 2018 were \$12.8m (30 September 2017: \$48.1m; 31 March 2018: \$9.2m).

Cash and cash equivalents at 30 September 2018 of \$2.9m (30 September 2017: \$8.0m; 31 March 2018: \$4.9m) belongs to the Turners Marque Warehouse Trust 1 and is not available to the Group.

TURNERS AUTOMOTIVE GROUP LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2018

| | Six months ended 30/09/2018 Unaudited \$'000 | Six months ended 30/09/2017 Unaudited \$'000 | Year ended 31/03/2018 Audited \$'000 |
|---|--|--|--|
| Cash flows from operating activities | | | |
| Interest received | 25,037 | 18,873 | 41,925 |
| Receipts from customers | 138,210 | 144,415 | 281,031 |
| Interest paid | (6,782) | (4,009) | (9,609) |
| Payment to suppliers and employees | (150,395) | (139,330) | (266,124) |
| Income tax paid | (8,671) | (4,465) | (5,824) |
| Net cash inflow/(outflow) from operating activities before changes in operating assets and liabilities | (2,601) | 15,484 | 41,399 |
| Net increase in finance receivables | (9,770) | (54,372) | (75,248) |
| Net decrease in reverse annuity mortgages | 1,146 | 672 | 66 |
| Net (increase)/decrease of financial assets at fair value through profit or loss | (1,348) | 305 | (41,937) |
| Net (withdrawals)/contribution from life investment contracts | 124 | (4,877) | (5,765) |
| Changes in operating assets and liabilities arising from cash flow movements | (9,848) | (58,272) | (122,884) |
| Net cash (outflow)/inflow from operating activities | (12,449) | (42,788) | (81,485) |
| Cash flows from investing activities | | | |
| Proceeds from sale of property, plant, equipment and intangibles | 8,858 | 152 | 3,944 |
| Purchase of property, plant, equipment and intangible assets | (5,811) | (6,116) | (22,698) |
| Purchase of subsidiaries and investments | - | (3,733) | (3,754) |
| Net cash inflow from investing activities | 3,047 | (9,697) | (22,508) |
| Cash flows from financing activities | | | |
| Net bank loan advances | 16,398 | 34,756 | 39,005 |
| Proceeds from the issue of share issue | - | 24,466 | 29,656 |
| Proceeds from the issue of bonds | - | - | - |
| Other borrowings | - | - | 2,837 |
| Dividend paid | (8,056) | (6,334) | (11,417) |
| Net cash inflow/(outflow) from financing activities | 8,342 | 52,888 | 60,081 |
| Net movement in cash and cash equivalents | (1,060) | 403 | (43,912) |
| Add opening cash and cash equivalents | 25,145 | 69,069 | 69,069 |
| Cash included with purchase of subsidiaries | - | - | - |
| Translation difference | - | - | (12) |
| Closing cash and cash equivalents | 24,085 | 69,472 | 25,145 |

TURNERS AUTOMOTIVE GROUP LIMITED

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2018

| | Six months ended 30/09/2018 Unaudited \$'000 | Six months ended 30/09/2017 Unaudited \$'000 | Year ended 31/03/2018 Audited \$'000 |
|--|--|--|--|
| RECONCILIATION OF NET SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit/(loss) | 12,885 | 10,031 | 23,360 |
| Adjustment for Non-cash items and other items | | | |
| Impairment (charge)/ release on finance receivables, reverse annuity mortgages and other receivables | 3,994 | 2,281 | 6,390 |
| Net (profit)/loss on sale fixed assets | (3,610) | (227) | (1,000) |
| Depreciation and amortisation | 2,706 | 2,689 | 5,627 |
| Capitalised reverse annuity mortgage interest | (451) | (432) | (869) |
| Deferred revenues | 1,702 | 282 | 917 |
| Fair value adjustments on assets/liabilities at fair value through profit and loss | (548) | (929) | (1,139) |
| Net annuity and premium change to policyholders accounts | 322 | 109 | 45 |
| Non-cash long term employee benefits | 160 | 238 | 516 |
| Non-cash adjustments to finance receivables effective interest rates | (42) | 51 | 109 |
| Deferred expenses | (1,129) | (5,909) | (7,135) |
| Fair value adjustment on investment property | - | - | (820) |
| Fair value adjustment to contingent consideration | - | - | (2,845) |
| Adjustment for Movements in Working Capital | | | |
| Net (increase)/decrease receivables and pre-payments | (2,280) | (1,823) | 1,009 |
| Net (increase)/decrease in inventories | (4,281) | 2,578 | 5,958 |
| Net increase/(decrease) in payables | (7,254) | 6,797 | 9,443 |
| Net increase in finance receivables | (9,770) | (54,372) | (75,248) |
| Net decrease in reverse annuity mortgages | 1,146 | 672 | 66 |
| Net (increase)/decrease of insurance assets at fair value through profit or loss | (1,348) | 305 | (41,937) |
| Net contributions/(withdrawals) from life investment contracts | 124 | (4,877) | (5,765) |
| Net (decrease)/increase in deferred tax liability | (4,159) | 1,214 | (48) |
| Net (decrease)/increase in tax payable | (616) | (1,466) | 1,881 |
| Net Cash inflow/(outflow) from Operating Activities | (12,449) | (42,788) | (81,485) |

TURNERS AUTOMOTIVE GROUP LIMITED

SEGMENTAL INFORMATION

OPERATING SEGMENTS

| Revenue | Revenue | | | Revenue | | | Revenue | | |
|---------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|-----------------------|-----------------------|-------------------------|
| | Total segment revenue | Inter-segment revenue | from external customers | Total segment revenue | Inter-segment revenue | from external customers | Total segment revenue | Inter-segment revenue | from external customers |
| | 30/09/2018 | 30/09/2018 | 30/09/2018 | 30/09/2017 | 30/09/2017 | 30/09/2017 | 31/03/2018 | 31/03/2018 | 31/03/2018 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Audited | Audited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Automotive retail | 112,765 | (969) | 111,796 | 115,694 | (2,211) | 113,483 | 226,434 | (3,222) | 223,212 |
| Finance | 21,564 | - | 21,564 | 17,791 | - | 17,791 | 39,747 | - | 39,747 |
| Collection Services | 9,249 | - | 9,249 | 10,189 | - | 10,189 | 18,677 | - | 18,677 |
| Insurance | 25,660 | - | 25,660 | 22,369 | - | 22,369 | 46,923 | - | 46,923 |
| Corporate & Other | 147 | (125) | 22 | 10 | - | 10 | 1,911 | - | 1,911 |
| | 169,385 | (1,094) | 168,291 | 166,053 | (2,211) | 163,842 | 333,692 | (3,222) | 330,470 |

Operating profit

| | 30/09/2018 | 30/09/2017 | 31/03/2018 |
|-------------------------------------|------------|------------|------------|
| | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 |
| Automotive retail | 8,013 | 8,771 | 16,550 |
| Finance | 5,423 | 5,537 | 11,735 |
| Collection Services | 3,076 | 3,413 | 6,069 |
| Insurance | 6,414 | 2,627 | 5,731 |
| Corporate & Other | (6,129) | (6,104) | (8,952) |
| Profit/(loss) before taxation | 16,797 | 14,244 | 31,133 |
| Income tax | (3,912) | (4,213) | (7,773) |
| Profit attributable to shareholders | 12,885 | 10,031 | 23,360 |

| | Interest revenue | | | Interest expense | | | Depreciation and amortisation expenses | | |
|---------------------|------------------|------------|------------|------------------|------------|------------|--|------------|------------|
| | 30/09/2018 | 30/09/2017 | 31/03/2018 | 30/09/2018 | 30/09/2017 | 31/03/2018 | 30/09/2018 | 30/09/2017 | 31/03/2018 |
| | Unaudited | Unaudited | Audited | Unaudited | Unaudited | Audited | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Automotive retail | 4,691 | 4,289 | 9,311 | (2,456) | (2,302) | (4,767) | (1,215) | (1,242) | (2,351) |
| Finance | 18,969 | 15,710 | 34,432 | (3,372) | (2,643) | (5,829) | (172) | (152) | (348) |
| Collection Services | 4 | 5 | 12 | - | - | - | (43) | (40) | (93) |
| Insurance | 1,167 | 993 | 1,997 | - | - | - | (144) | (105) | (681) |
| Corporate & Other | 147 | 9 | 22 | (2,412) | (1,748) | (4,438) | (1,132) | (1,150) | (2,154) |
| | 24,978 | 21,006 | 45,774 | (8,240) | (6,693) | (15,034) | (2,706) | (2,689) | (5,627) |
| Eliminations | (265) | (161) | (690) | 265 | 161 | 690 | - | - | - |
| | 24,713 | 20,845 | 45,084 | (7,975) | (6,532) | (14,344) | (2,706) | (2,689) | (5,627) |

Other material non-cash items

| | Revenue | | | Expenses | | |
|---|------------|--------------|--------------|----------------|----------------|----------------|
| | 30/09/2018 | 30/09/2017 | 31/03/2018 | 30/09/2018 | 30/09/2017 | 31/03/2018 |
| | Unaudited | Unaudited | Audited | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Automotive retail - impairment provisions | - | - | - | (219) | (207) | (423) |
| Finance - impairment provisions | - | - | - | (3,657) | (2,016) | (5,929) |
| Insurance - impairment provisions | - | - | - | (75) | (53) | (28) |
| Automotive retail - revaluation of investment | - | 590 | - | - | - | - |
| Collection services - deferred revenue | 84 | 241 | 433 | - | - | - |
| Insurance - reverse annuity mortgage interest | 451 | 432 | 869 | - | - | - |
| | 535 | 1,263 | 1,302 | (3,951) | (2,276) | (6,380) |

2.2 SEGMENT ASSETS AND LIABILITIES

| | Segment assets | | | Segment liabilities | | |
|---------------------|----------------|----------------|----------------|---------------------|----------------|----------------|
| | 30/09/2018 | 30/09/2017 | 31/03/2018 | 30/09/2018 | 30/09/2017 | 31/03/2018 |
| | Unaudited | Unaudited | Audited | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Automotive retail | 152,295 | 134,963 | 152,006 | 109,844 | 103,255 | 115,071 |
| Finance | 249,401 | 228,077 | 255,937 | 192,228 | 178,439 | 199,374 |
| Collection Services | 29,944 | 28,477 | 28,780 | 6,123 | 8,582 | 6,937 |
| Insurance | 126,589 | 117,862 | 124,358 | 67,055 | 64,413 | 69,213 |
| Corporate & Other | 270,107 | 285,026 | 298,912 | 70,642 | 72,386 | 89,443 |
| | 828,336 | 794,405 | 859,993 | 445,892 | 427,075 | 480,038 |
| Eliminations | (170,143) | (172,033) | (208,261) | (5,046) | (5,439) | (42,629) |
| | 658,193 | 622,372 | 651,732 | 440,846 | 421,636 | 437,409 |

2.3 AUTOMOTIVE RETAIL SEGMENT ANALYSIS

| | Revenue from external customers | | | Revenue from external customers | | | Revenue from external customers | | |
|----------------|---------------------------------|-----------------------|---------------------------------|---------------------------------|-----------------------|---------------------------------|---------------------------------|-----------------------|---------------------------------|
| | Total segment revenue | Inter-segment revenue | Revenue from external customers | Total segment revenue | Inter-segment revenue | Revenue from external customers | Total segment revenue | Inter-segment revenue | Revenue from external customers |
| | 30/09/2018 | 30/09/2018 | 30/09/2018 | 30/09/2017 | 30/09/2017 | 30/09/2017 | 31/03/2018 | 31/03/2018 | 31/03/2018 |
| | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Audited | Audited | Audited |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Auctions | 22,872 | (218) | 22,654 | 21,899 | (607) | 21,292 | 41,655 | (472) | 41,183 |
| Finance | 8,195 | (751) | 7,444 | 7,313 | (194) | 7,119 | 14,711 | (143) | 14,568 |
| Fleet | 49,480 | - | 49,480 | 56,114 | - | 56,114 | 108,047 | - | 108,047 |
| Buy Right Cars | 32,218 | - | 32,218 | 30,368 | (1,410) | 28,958 | 62,021 | (2,607) | 59,414 |
| | 112,765 | (969) | 111,796 | 115,694 | (2,211) | 113,483 | 226,434 | (3,222) | 223,212 |

Operating profit

| | 30/09/2018 | 30/09/2017 | 31/03/2018 |
|----------------|--------------|--------------|---------------|
| | Unaudited | Unaudited | Audited |
| | \$'000 | \$'000 | \$'000 |
| Auctions | 1,659 | 2,459 | 3,410 |
| Finance | 3,343 | 2,956 | 5,724 |
| Fleet | 2,509 | 1,993 | 4,970 |
| Buy Right Cars | 502 | 1,363 | 2,446 |
| | 8,013 | 8,771 | 16,550 |

Division assets and liabilities

| | Assets | | | Liabilities | | |
|----------------|---------------------|---------------------|-------------------|---------------------|---------------------|-------------------|
| | 30/09/2018 | 30/09/2017 | 31/03/2018 | 30/09/2018 | 30/09/2017 | 31/03/2018 |
| | Unaudited \$'000 | Unaudited \$'000 | Audited \$'000 | Unaudited \$'000 | Unaudited \$'000 | Audited \$'000 |
| Auctions | 39,738 | 26,583 | 44,395 | 11,111 | 7,194 | 24,038 |
| Finance | 62,467 | 61,463 | 66,294 | 58,665 | 58,319 | 60,133 |
| Fleet | 18,466 | 20,651 | 14,595 | 14,436 | 16,565 | 8,373 |
| Buy Right Cars | 31,624 | 26,266 | 28,549 | 25,632 | 21,177 | 23,045 |
| | 152,295 | 134,963 | 153,833 | 109,844 | 103,255 | 115,589 |
| Eliminations | - | - | (1,827) | - | - | (518) |
| | 152,295 | 134,963 | 152,006 | 109,844 | 103,255 | 115,071 |

Five reportable segment have been identified as follows:

Automotive retail - remarketing (motor vehicles, trucks, heavy machinery and commercial goods) and purchasing goods for sale (motor vehicles and commercial goods) and related asset based finance to consumers.

Collection services - collection services, credit management and debt recovery services to the corporate and SME sectors. Geographically the collections services segment business activities are located in New Zealand and Australia.

Finance - provides asset based finance to consumers and SME's.

Insurance - marketing and administration of a range of life and consumer insurance and superannuation products.

Corporate & other - corporate centre.

Change in accounting policies

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments to opening retained earnings as a result of adopting the following standards:

- NZ IFRS 9 'Financial Instruments'; and
- NZ IFRS 15 'Revenue from Contracts with Customers'

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustment.

NZ IFRS 9 'Financial Instruments'

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments.

The Group has chosen not to restate comparative information and adjustments required by the application of the new standard have been made to the opening balance of retained earnings recognised in the Statement of changes in equity for the six months ended 30 September 2018.

The Group's classification measure of financial assets and liabilities under NZ IFRS 9 remains largely the same as it was under NZ IAS 39.

Impairment

The adoption of NZ IFRS 9 has fundamentally changed the Group's accounting for impairment for financial assets by replacing NZ IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

NZ IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at Fair value in profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Group has calculated ECLs on 12 months of expected losses where there has not been a significant increase in credit risk and lifetime expected losses where there has been a significant increase. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain circumstances, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancement held by the Group. The adoption of the ECL requirements of NZ IFRS 9 resulted in increases in impairment allowances for the Group's Finance receivables. The increase in allowance resulted in (\$1,555,000) adjustment to Retained earnings.

NZ IFRS 15 'Revenue from Contracts with Customers'

NZ IFRS 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contract with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling the contract.

The Group elected to apply the retrospective cumulative effect method, with no restatement of comparative period amounts. The cumulative effect of applying the new standard is included as an adjustment to the opening balance of retained earnings recognised in the Statement of changes in equity for the six months ended 30 September 2018.

The Group's revenue recognition policies remain largely the same with the following exception:

Sales of service- Collection income

The Group has concluded that collection income should be recognised when the service is rendered. The adoption of NZ IFRS 15 has impacted the timing of when some collection income and the related costs are recognised resulting (\$284,000) adjustment to opening retained income.

Summary of NZ IFRS 9 and NX IFRS 15 adjustment to opening retained income:

| | \$'000 |
|---|---------------|
| Balance at 1 April 2018 | 14,659 |
| <i>NZ IFRS 9 adjustments:</i> | |
| Change in impairment | (2,160) |
| Deferred tax | 605 |
| <i>NZ IFRS 15 Adjustment</i> | |
| Change in collection income | (617) |
| Change in collection expenses | 348 |
| Tax payable | 23 |
| Deferred tax | (38) |
| Adjusted balance at 1 April 2018 | 12,820 |

Subsequent events after balance date

On 1 October 2018, the 6.5% convertible bonds were settled by repaying \$7,505,000 in cash, exchanging \$4,814,000 for the new 5.5% subordinated bonds and issuing 4,646,037 ordinary shares at \$2.85 per share (\$13,241,000). On the same day \$25,000,000 5.5% subordinated bonded with a 3 year term were issued.

Contingent liabilities

DPL Insurance Limited (DPL) and Vero Insurance New Zealand Limited (Vero) have agreed to an expert determination to decide the appropriate level of insurance reserves to be transferred to DPL Insurance for the acquisition of the Autosure business. Both parties are seeking a payment. The directors consider that on balance of probabilities DPL is likely to receive a payment. Pending the outcome of the determination, DPL may be required to make a payment to Vero. The date of the hearing is set for 28 November 2018 with the outcome expected to be announced before the end of the year. At the date of this report, the timing and amount of any payment could not be reliably estimated.