



shareholder report 2007







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Roger Bonifant

chairman's review

Last year's annual report was written after six tough months of vehicle trading and the failure of three finance companies. We forecast a tough year ahead, based on a slowing economy, lower vehicle sales and increased competition. The actual experience was pleasingly different. After a couple of ordinary months at the beginning of the year, all performance indicators showed a marked improvement over budget, to the extent that MTF has finished with another very strong profit result.

Margins have held up in an increasing interest rate environment, sales of risk management products have exceeded our expectations, arrears are at record low levels and expense has been maintained at last year's level. Bad debt experience is almost negligible. None of these results is an accident. Well before finance company failure started to dominate the front pages, MTF had in place risk management strategies that ensure MTF is able to manage through any reasonably foreseeable crisis.

The meltdown in the New Zealand retail debenture market is a crisis exceeded only by the credit crunch resulting from the failure of the US sub prime mortgage market. Both of these tested our funding and will continue to do so until credit markets return to normal, which may be a normal different from that of the past. Because we rely mainly on the euro commercial market for our funding, we continue to suffer directly from the world wide credit crunch. Initially, we were unable to issue, not because our paper was inferior but because the market had almost completely disappeared. For the first time since our funding programme was launched in 1995, we resorted to our bank liquidity facilities and were able to fund, albeit at a higher cost. Since then, the market has recovered to a limited degree and we have been able to fund directly. At the date of this report, our funding, outside New Zealand bank funding, is 75% issued and 25% liquidity facility. Our ability to fund throughout this period is testament not only to our risk management strategies but also to the completeness of our programme and the support of our bankers.

One prediction we can make with some certainty is that funding for finance companies will be different in the future. Bank funding and securitisation will continue to provide the core funding, while we consider other sources, such as medium term notes and retail debentures. MTF has a good story to tell and has the support of its bankers but credit markets have changed and we need to adapt to meet the market.

Looking to the future, MTF will continue to provide returns to transacting shareholders that are well above what they could earn elsewhere. The management and staff of MTF continue to look for new opportunities and this year has seen the successful expansion into direct lending and a cautious move into business equipment lending. With the failure or contraction of a number of its competitors, MTF is able to selectively move into new markets, where its systems and expertise enable it to source loan assets that deliver both reasonable profit and ease of management.

MTF has been a leading light in the New Zealand finance company market since 1971. Recent events have tested the governance and management of the business and I am pleased to report that neither has been found wanting. The management team at MTF is both experienced and competent. MTF may not grow at the spectacular rates that other companies deliver but it will continue to provide certainty and profitability that delivers to customers and shareholders alike.

Roger Bonifant
Chairman

7 November 2007



five year financial review

	2007	2006	2005	2004	2003
	\$000	\$000	\$000	\$000	\$000
<i>financial performance</i>					
total income	90,485	91,258	87,624	80,118	75,228
profit before taxation	39,419	40,508	38,780	36,312	33,642
taxation	812	474	84	174	(42)
profit after taxation	38,607	40,034	38,696	36,138	33,684
profit distributable to transacting shareholders	36,786	39,641	38,712	36,112	33,607
<i>financial position</i>					
assets	602,011	581,447	580,421	553,051	519,484
liabilities	548,085	523,818	568,997	536,257	479,264
shareholders' equity	53,926	57,629	11,424	16,794	22,220
capital	53,926	57,629	41,424	41,794	47,220
net loans under administration	570,756	548,756	549,554	527,132	494,054
<i>performance indicators</i>					
total transacting shareholder earnings/ average loans under administration	8.58%	8.40%	7.53%	7.10%	7.30%
expense/average total assets	1.74%	1.78%	1.58%	1.60%	1.65%
profit after taxation/average total assets	6.50%	6.90%	6.80%	6.70%	6.90%
capital percentage	9.04%	9.90%	7.10%	7.60%	9.10%



Angus Bradshaw

management review

financial performance

	2007	2006
	\$000	\$000
profit after taxation and before provision reversal	38,229	36,097
provisions reversed (IFRS – see below)	378	3,937
profit after taxation	38,607	40,034
taxation	812	474
non-member income	(20)	(178)
perpetual preference share dividend	(2,613)	(689)
profit distributable	36,786	39,641
fees	7,844	6,279
payment waiver premium	3,993	–
insurance commission	73	3,317
total transacting shareholder earnings	48,696	49,237

MTF transacting shareholders earned \$48.7m, through their participation in MTF, in the year to 30 September 2007. This includes \$36.8m, reported above, and an additional \$11.9m in fees and payment waiver premium. Although this is down on 2006, last year's figure included provisions of \$3.9m, taken to profit in readiness for adoption of International Financial Reporting Standards (IFRS). Highlights include:

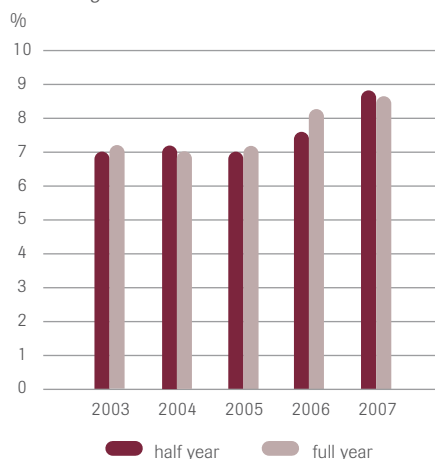
- new business increased by 2.4% to \$454.7m
- underlying profit distributable to transacting shareholders increased to \$36.4m (last year: \$35.7m), up 2%
- expense, as a percentage of average total assets, was lower at 1.74% (last year: 1.78%)
- return on loan assets increased to 8.6% (last year: 8.4%)
- average earnings per transacting shareholder increased by 7%, to \$70,000
- profit after tax decreased to \$38.6m (last year: \$40.0m)

A focus on technology, compliance and product development has driven overhead spending, although other costs have been well contained and this is reflected in the expense ratio, which is just beneath our long term benchmark of 1.75%. Year on year cost remained static.

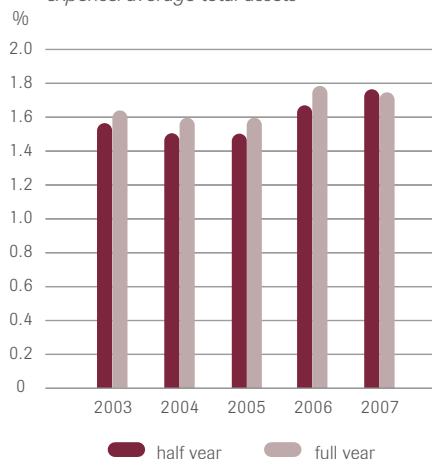
Twelve months ago, MTF was predicting a subdued market for most of 2007, and so it proved, with registrations at the Personal Property Securities Register (PPSR) down 7% on the comparable period last year. To report moderate ledger growth and total transacting shareholder earnings not dissimilar to last year in such a climate is satisfying. The clouds on the horizon remain; higher fuel prices, high household debt, higher interest rates, softening employment and finance industry difficulties, internationally and within New Zealand, will ensure that 2008 will be another exacting year, with both challenges and opportunities.



*total transacting shareholder earnings/
average loans under administration*



expense/average total assets



financial position

Total assets increased by 3.5%, to \$602.0m, in line with the sales growth experienced in the last half of the year.

The balance sheet remains sound, with capital, including perpetual preference shares, of \$53.9m and a capital percentage of 9.0%.

Commercial paper, issued through the securitisation programme, continues to be rated A1+/P-1 (extremely strong/superior) by Standard & Poor's/Moody's, a reflection of the quality of paper written by transacting shareholders and of our continuing focus on credit quality.

credit quality

Bad debt expense includes full provision for potential losses from individual transacting shareholder failure, arising from irregular lending. Net bad debt recovered for the year totalled \$1,000 (last year: \$170,000).

At the date of this report, all credit measures remain well within target, with arrears levels amongst the lowest seen in recent times.

Lending on motor vehicles remains a sound and profitable business, provided it is managed appropriately, as has always been the case. Whilst MTF lends primarily on used motor vehicles, risk is diversified by the large number of relatively small loans spread across a large number of borrowers throughout New Zealand. All loans are managed and guaranteed by the transacting shareholders. MTF monitors the performance of each transacting shareholder and each portfolio of loans on a regular basis and carries out regular reviews of lending policy and process.

continuous improvement

In the half year report, we signalled the introduction of a direct lending franchise, based on the successful transacting shareholder platform. The last six months has seen the completion of the model and already we are seeing above average performance coming from those transacting shareholders that have taken up the challenge. Franchise owners will become members of the co-operative and will provide motor vehicle and business equipment finance direct to consumers and small to medium business under the MTF Direct brand. This is an exciting opportunity to leverage the MTF brand story, successfully built



management review continued

over the past thirty six years, while diversifying and expanding market penetration. Applications for MTF Direct franchises have been received from existing transacting shareholders and interested outside parties and appointments will be made with a view to developing, over time, a network of successful, regional, direct-to-the-public finance operations, backed by a professional support infrastructure.

Payment waiver has performed beyond our budget expectations and is providing customers with a waiver of loan payments in the event of illness, redundancy, disability, death or bankruptcy. By incorporating the product into the credit contract and taking some of the risk ourselves, we have been able to pass reduced costs on to customers, who pay less for an MTF payment waiver than they pay for traditional credit insurance.

We will continue to look for lending opportunities away from the traditional motor vehicle dealer business, not only to grow and strengthen the balance sheet but also to ensure that we continue to deliver above average earnings to our transacting shareholders.

profit distribution

The final distribution for the year will be paid to qualifying transacting shareholders on 30 November 2007.

staff (and transacting shareholders)

The partnership, between staff and transacting shareholders, is the essence of the successful co-operative and both transacting shareholders and customers continue to rate our staff highly. Each year throws up further demands on staff time and patience, and we are continually impressed with, and grateful for, the commitment, hard work and loyalty they demonstrate in response.

directors

Lawrance Saunders resigned from the board, effective 30 September 2007 and the board and management wish to acknowledge his contribution over the seventeen year period that he served the board and the company.

Mark Hatwell has been appointed to the vacant shareholder director position. Mark has a long history in the used vehicle market and has run a number of successful dealerships in the Waikato and Bay of Plenty.

finance company failure

The failure of a number of finance companies has generated a frenzy of media, and so-called expert, commentary, not all of it well informed, and exposed otherwise well managed finance companies and their investors to an unhealthy crisis of confidence, leaving many dazed and confused. The early failures were mostly about optimism, both in loan origination and in loan management, as demonstrated by the ability of receivers to recover most of the outstanding debt. The most spectacular failures had all the hallmarks of incompetence, with large single party, related party and cross border exposures demonstrating that directors and management had no idea, or care, about what they did with investors' money. More recently, a number of smaller companies failed, not so much because of what they were doing but because the activities of others had generated concern about investing in any finance company, regardless of underlying strength.

The regulation of finance companies and non-bank deposit takers will go some way to restoring confidence in finance companies as a secure investment. Good management, diversified funding, strong liquidity, owners' equity invested and limited related party lending are important indicators of a strong business model. Disclosure to investors is an important component and MTF has launched an investor web page www.mtf.co.nz/invest.aspx to facilitate plain English disclosure for all interested parties, including transacting shareholders, perpetual preference shareholders and potential investors.



international debt markets

Internationally, the knock-on effect from the US sub-prime mortgage collapse has changed the market for asset backed commercial paper, at least in the short-term. MTF has always had facilities in place should commercial investors withdraw from the market, and this has enabled MTF to continue to fund new and existing business for the foreseeable future, albeit at the higher margins that have become the new reality. At the date of this report seventy-five percent of MTF securitisation requirements are funded through euro commercial paper, with the remainder funded by bills of exchange provided by appropriately rated banks. One prediction we can make with certainty is that funding for finance companies will be different in the future. Bank lines and securitisation will continue to provide the core funding, while we consider other sources, such as medium term notes and retail debentures. MTF has a good story to tell and has the support of its bankers, but credit markets have changed and we need to respond to the changes as they occur.

The fundamentals of lending remain the same; cars don't repay loans and lending to the borrower is the key to successful loan performance. Failure occurs when lenders don't have good systems, shift away from the core business and fail to keep expense under control.

outlook – we remain positive

We are still waiting for the slowdown in the economy but all the efforts of the Reserve Bank have been thwarted by the fundamental strength of New Zealand as a primary producer and a nation of optimists. The impacts of higher oil prices and emission controls, which will most likely be introduced from 2008, suggest that there will be a shift in the types of vehicles available to buyers.

This will take some time to work through the dealer system and there will be some rationalisation in the dealer market.

We expect credit quality to remain strong, not only because of a strong economy but also because we have the systems and people in place to ensure we manage it well.

On the funding side, we expect that interest rates will increase before they fall, largely because of continued inflation pressure, making New Zealand an attractive destination for foreign investors. We cannot be certain how debt markets will behave, with some commentators predicting more shocks to come.

Although it is still early in the new financial year, new business figures are ahead of last year and we are in a strong position to meet whatever the year decides to throw at us.

Angus Bradshaw
Managing Director

7 November 2007

summary financial statements

statement of financial performance

year ended 30 september 2007

	<i>group</i>	
	2007	2006
	\$000	\$000
interest income		
interest from loans and leases	77,843	79,169
deposit interest	2,270	2,162
	80,113	81,331
funding costs	41,087	42,406
net interest income	39,026	38,925
fees	10,372	9,927
net interest income and fees	49,398	48,852
expense		
operating costs	8,531	8,592
depreciation	1,736	1,758
	10,267	10,350
write-offs/claims (actual and potential)	(288)	(2,006)
profit before taxation	39,419	40,508
taxation expense	812	474
profit after taxation	\$38,607	\$40,034

statement of movements in equity

year ended 30 september 2007

	<i>group</i>	
	2007	2006
	\$000	\$000
shareholders' equity at start of year	57,629	11,424
profit after taxation	38,607	40,034
total recognised revenue and expense	38,607	40,034
issue of perpetual preference shares	—	38,966
shareholders' contributions and shares redeemed	(16)	88
distribution to transacting shareholders	(39,681)	(32,194)
distribution to perpetual preference shareholders	(2,613)	(689)
transactions with shareholders	(42,310)	6,171
shareholders' equity at end of year	\$53,926	\$57,629



statement of financial position

30 september 2007

	<i>group</i>	
	2007	2006
	\$000	\$000
funds employed		
share capital and retained earnings	14,960	18,663
perpetual preference shares	38,966	38,966
shareholders' equity	53,926	57,629
liabilities		
accounts payable and other liabilities	10,708	6,052
short-term loans – secured	21,300	37,700
euro commercial paper – secured	133,353	480,066
bills of exchange – secured	382,724	–
total liabilities	548,085	523,818
total funds employed	\$602,011	\$581,447
employment of funds		
accounts receivable and other assets	28,561	28,355
securitised receivables	528,412	488,420
non-securitised receivables	39,677	59,501
property plant and equipment	5,361	5,171
total assets	\$602,011	\$581,447

statement of cash flow

year ended 30 september 2007

	<i>group</i>	
	2007	2006
	\$000	\$000
net cash flow from operating activities	41,591	37,262
net cash flow from investing activities	(23,258)	(1,190)
net cash flow from financing activities	(20,235)	(37,885)
net decrease in cash	(\$1,902)	(\$1,813)

Angus Bradshaw
Managing Director

Roger Bonifant
Chairman

7 November 2007

The disclosures included in this Shareholder Report have been taken from the audited financial statements included in the Annual Report for the year ended 30 September 2007, dated 7 November 2007. The Shareholder Report provides a summary of the financial performance, financial position and cash flows of the company and cannot be expected to provide as comprehensive an understanding as that provided by the Annual Report. The Annual Report 2007 can be found at www.mtf.co.nz/invest.aspx.



notes to the summary financial statements

note 1: liquidity risk

<i>group 2007</i>	<i>0 - 6 months \$000</i>	<i>6 - 12 months \$000</i>	<i>12 - 24 months \$000</i>	<i>24 - 60 months \$000</i>	<i>Total \$000</i>
monetary assets	154,362	110,577	176,682	155,029	596,650
monetary liabilities	546,743	-	-	-	546,743

Liquidity risk is managed primarily through access to the securitisation programme by which receivables are sold to MTFS. Within the securitisation programme revolving liquidity credit facilities (bills of exchange (BOE) facility) exist with appropriately rated banks to ensure ongoing funding to repay euro commercial paper (ECP) on maturity should further paper not be able to be issued.

The securitisation programme has a facility limit of NZD600,000,000 and is subject to credit rating by Standard & Poor's and Moody's Investors Service. The ECP and BOE drawn at year end are components of this securitisation programme facility and amount to \$133,353,000 (2006 : \$480,066,000) and \$382,724,000 (2006 : nil) respectively. The facility has a review date of 25 December 2007 and a maturity date of 24 June 2008. Further details are set out in Note 29 of the audited financial statements included in the Annual Report 2007.

note 2: significant events after balance date

Subsequent to balance date, the board approved the payment of the August 2007 and September 2007 monthly profit distributions totalling \$5,619,000.



audit report



audit report to the shareholders of Motor Trade Finances Limited

We have audited the summary financial statements of Motor Trade Finances Limited for the year ended 30 September 2007 as set out on pages 10 to 12.

board of directors' responsibilities

The Board of Directors is responsible for the preparation of summary financial statements, in accordance with New Zealand law and generally accepted accounting practice.

auditors' responsibilities

It is our responsibility to express to you an independent opinion on the summary financial statements.

basis of opinion

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary report is based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-39: Summary Financial Statements.

Other than in our capacity as auditor and the provision of taxation advice and other assurance advice, we have no relationship with or interests in Motor Trade Finances Limited.

unqualified opinion

In our opinion, the information reported in the summary financial statements complies with FRS-39: Summary Financial Statements and is consistent with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to the shareholders dated 30 September 2007.

For a better understanding of the scope of our audit of Motor Trade Finances Limited's financial statements and of Motor Trade Finances Limited's financial position, financial performance and cash flows for the year ended 30 September 2007, this report should be read in conjunction with Motor Trade Finances Limited's audited financial statements for that period.

Our examination of the summary financial statements was completed on 7 November 2007 and our unqualified opinion is expressed as at that date.

A stylized, handwritten-style signature of the word "Deloitte" in black ink.

Chartered Accountants

DUNEDIN, NEW ZEALAND



governance

framework

MTF is incorporated under the Companies Act 1993 and the Co-operative Companies Act 1996, with its equity shares held by transacting and perpetual preference shareholders. The directors are responsible for the governance of the company.

board

The responsibilities of the directors include:

- working with management to create shareholder value
- setting the long-term goals of the company and the strategic plans to achieve those goals
- approving budgets for the financial performance of the company, and monitoring results
- managing risk by ensuring that the company has appropriate systems of internal control
- ensuring preparation of the annual and half-yearly financial statements

The board has the following committees: audit, remuneration, credit and nominations. Other committees may be formed for specific purposes and disbanded as required.

Committees enhance the board's effectiveness, while preserving overall board responsibility. Committees are assigned terms of reference for the roles they perform, and report to the board on their deliberations, together with any decisions requiring board ratification.

The board continually reviews the roles, membership and effectiveness of the committees.

risk management

An annual cycle of internal risk reviews is performed, covering treasury, finance, credit and information technology.

The board ensures that recommendations arising from external audit or internal risk reviews are investigated and suitable action is taken to ensure that the company has an appropriate environment in place to manage the risks identified.

The board requires that management investigates ways of enhancing risk management strategies, including appropriate segregation of duties and the employment and training of suitably qualified and experienced personnel.

An asset liability committee, consisting of the Managing Director, General Manager-Treasury, Financial Controller and Manager-Credit, meets regularly to consider balance sheet risk and management, within the framework of board approved treasury management and credit policy.

key dates

31 December 2007	Perpetual preference share quarterly dividend
21 February 2008	Annual meeting
31 March 2008	Perpetual preference share quarterly dividend
12 May 2008	Release of result for half-year to 31 March 2008
30 June 2008	Perpetual preference share quarterly dividend
30 September 2008	Perpetual preference share quarterly dividend Perpetual preference share dividend rate reset
7 November 2008	Release of annual result for year to 30 September 2008 Annual report available on website



directory

directors

Roger Bonifant (Chairman) *MAGSc, MSc, CNZM*

Appointed 1991. Independent director.

Roger is Chairman of Ashburton Contracting Limited and Rawlinsons Limited, Deputy Chairman of Timaru District Holdings Limited and a director of Barrhill Chertsey Irrigation Limited, Hobsonville Land Company Limited, Loan and Building Society, Lynn River Limited, Rural Equities Limited and W Pinckney Limited. He is a director of MTF Limited and MTF Leasing Limited.

Angus Bradshaw *BCA, ACA, FFin, FNZIM*

Appointed 1998. Managing Director

Angus joined MTF as General Manager in December 1997 and was appointed a director in April 1998. Angus is a director of Wickliffe Limited. He is a director of MTF Securities Limited, MTF Limited and MTF Leasing Limited.

Warwick Cashmore

Appointed 1992. Shareholder director.

Warwick is Managing Director of Cashmore Finance Limited, an MTF shareholder, and has been involved in the motor trade since 1970.

Kenneth Cummings

Appointed 2003. Shareholder director.

Ken holds a number of major franchises through his dealerships in Nelson, Christchurch, Dunedin and Invercargill and has been involved in the motor trade since 1973. Ken is a director of Southern Motor Group Limited, Southern Motor Holdings Limited, Christchurch Motor Group Limited, Southern Automotive Limited, Southland Honda Limited and Christchurch 4WD Limited.

Graeme Gibbons *BCom, CA*

Appointed 1990. Shareholder director.

Graeme is Chief Executive Officer of The Colonial Motor Company Limited (CMC), a listed public company. CMC is the parent company of a number of Ford dealerships throughout New Zealand, which have been MTF shareholders since the early 1980s. Graeme is a director of The Colonial Motor Company Limited and its subsidiaries. Graeme is chairman of the credit committee.

Mark Hatwell

Appointed 1 October 2007. Shareholder director.

Mark is a director of Hamilton Wholesale Cars Limited, East Bay Motors Limited, Tauranga Car Sales Limited, Metro Motors Rotorua Limited, Metro Motors Hamilton Limited and a number of private companies.

Stephen Higgs *BCom, FCA*

Appointed 2006. Independent director

Stephen is a founding partner of Polson Higgs, Chartered Accountants, with offices in Dunedin and Christchurch. Stephen is Chairman of Mt Difficulty Wines Limited, Character Animation Technologies Limited and CAT IP Limited and a director of Citibus Limited and Cumberland Property Group Limited. Stephen is company secretary of Combined Rural Traders Society Limited and lectures in taxation at the University of Otago. Stephen is a director of MTF Limited and MTF Leasing Limited. Stephen is chairman of the audit committee.

Lawrance Saunders

Resigned 30 September 2007

management

Managing Director

Angus Bradshaw *BCA, ACA, FFin, FNZIM*

Treasury

Daniel Clarkson *BCom, DipGrad, SAFin*

Credit

Russell Walker *MBA, BCom, ACA, CMA, SAFin*

Finance

Glen Todd *BCom, ACA, AFin*

Information Technology

Daniel Irvine

MTF Direct

Mark Grammer *MMgt Grad DipFin*

Marketing

Justin Stott *BCom, BPhEd*

Product Development

Kyle Cameron *BCom, BPhEd, DipGrad, ACA*

Dealer Support

Simon Hopkins

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