



## **Chairman's Address to the Annual General Meeting held on Friday 23 May 2008**

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Ladies and Gentlemen,

I am pleased to report that your company has maintained a 51 year history of paying a dividend each year. This year's recommended final dividend of 36 cents per share takes the annual dividend to 58 cents per share, the seventh record dividend in a row.

I am also pleased to report that it is the intention of your Board to maintain the expansionary program you have witnessed over the past few years and to assist us in this regard we look forward to continued strong shareholder support.

### **Results and Dividends for 2007**

The results for 2007 combined significant growth through acquisitions with improved trading performance from existing businesses.

The acquisition of the Newcastle/Hunter Valley based Kloster Group was completed in February 2007, an initial 19.6% stake in Adtrans Group was acquired in May 2007, the Surfers City Holden business was acquired in August 2007, and a heads of agreement was entered into for the purchase of Sydney Northern beaches based Bill Buckle Auto Group which was completed in March 2008.

The Kloster, Adtrans and Surfers City acquisitions made a significant contribution to the Group in 2007, injecting \$310 million of revenue and \$12.6 million of earnings before interest and tax.

Pleasingly, improved revenue and margin from existing businesses also added significant value, generating additional earnings before interest and tax of \$12.3 million.

The full year net profit before tax was \$40 million. This compares with a net profit before tax of \$38.6 million in 2006 which contained a profit on the sale of surplus property of \$15 million. Excluding the impact of the property sale in 2006, the net profit before tax from trading activities increased by 84% year on year.

Revenue increased by \$501 million or 43% on 2006 levels to \$1.67 billion.

I will leave the detail to our CEO Martin Ward to cover in his address as he is the main architect of the Company's more recent growth and improved financial performance but it is with much pleasure that I am able to report a recommended record fully franked final dividend of 36 cents per share, a substantial increase on the final dividend for 2006 of 24 cents per share. The full year dividend of 58 cents per share is a 35% increase on 2006.

The final dividend is payable this coming Monday the 26<sup>th</sup> of May 2008, subject of course to your approval later in the meeting.

## **Property Assets**

The Group continues to focus on realising value from its extensive property portfolio and capitalizing on growth opportunities that arise from holding a portfolio such as ours.

Following the sale of the RMC site in Newstead in December 2006, the dealerships previously located on that site have been relocated to alternate underutilized sites within the Group's portfolio.

A contract was entered into for the acquisition of an automotive retail zoned development site at Robina on the Gold Coast as a base for the future growth of our business in that growing region.

The Directors' valuation of our property portfolio at 31 December 2007 resulted in a \$28 million before tax valuation increase which was taken to the property revaluation reserve account. The appropriate allowance for capital gains tax was provided for in conformity with current accounting standards. The increase primarily reflects further growth in value for properties located in the Brisbane city fringe areas of Fortitude Valley, Newstead and Woolloongabba

## **Growth Opportunities**

With the completion of the Bill Buckle Auto Group acquisition at the end of March 2008 the Group now has strong representation in the Northern beaches region of Sydney. The four Bill Buckle brands, Toyota, Subaru, Audi and Volkswagen are all fast growing premium brands and suit the demographics of the Northern beaches customers.

The tightening evident in credit and retail markets over the last four to six months is expected to provide further opportunities for growth by acquisition in the next 12 months.

The initial 19.6% stake in the Adtrans Group has increased to 22.75% currently as a result of further acquisitions and participation in their recently introduced dividend re-investment program. This investment provides us with an exposure to the truck market in Sydney, Melbourne and Adelaide and the passenger & commercial vehicle market in South Australia.

Adtrans continues to perform strongly and on the 8<sup>th</sup> of April 2008 announced an upgrade profit forecast for 2007/2008 of a 20% increase on the previous year.

## **Management Changes**

Consistent with my comments in previous years on ensuring we have the right financial and management skills to continue to take advantage of both external and internal opportunities, a number of changes have occurred at senior management level.

The impending retirement of our long serving and highly effective Company Secretary Dennis Hull has also prompted some of the changes. Dennis has been with the Group for 25 Years, previously in the combined Chief Financial Officer and Company Secretary role and more recently in the Company Secretary role. Dennis has made a significant contribution to the organization over this period.

Mr. Stephen Best was appointed to the role of Chief Financial Officer in October 2007, having previously held senior financial and commercial roles for Consolidated Rutile Limited, Xstrata Plc and MIM Holdings Limited.

Mr. Geoff Walker is concentrating on the Group's information services requirements in the newly created Chief Information Officer role.

Mr. Denis Stark was appointed to the role of General Counsel and Company Secretary designate in February 2008, having previously held similar roles with Queensland Cotton and Grainco Australia. Denis Stark will assume the Company Secretary responsibilities on Dennis Hull's retirement in July.

Mr. Rohan Meyer joined the Group in September 2007 in the role of Business Development Manager, having previously worked in dealership related roles with the Holden Motor Company and Toyota Motor Corporation.

These employees together with Mr. Keith Thornton, General Manager Queensland and Northern Territory and Michael Raywood, Group HR Manager, under the guidance of our CEO and Managing Director Martin Ward form a strong, robust management team which your Board is confident will support the future growth and development of the business in the coming years.

## **Current Trading**

Let me now comment on our 2008 trading results to date.

Successive Australian Reserve Bank interest rate rises and the impact of the U.S sub-prime derived credit crisis appears to have dampened the Group's vehicle trading performance in March and April of this year. An increase to Queensland stamp duties on most vehicles from 1 January 2008 and a resulting relocation of some large fleet sales to other States, together with the spread of Easter and school holidays over March and April is making analysis of underlying trends more difficult.

However, the growth in the number of cars on Australian roads in recent years to some 15 million vehicles in 2007, compared to just 12 million vehicles in year 2000, will provide support to the Group's parts and service business during what may be a more difficult period for vehicle sales.

Our unaudited results for the four months to 30 April 2008 reflect a 32% increase in before tax earnings over the same period of last year. Neither this year's nor last year's first four months results were affected by any abnormal gains or losses but due to business acquisitions in both periods and the current U.S. sub-prime derived credit crisis it is not possible to merely extrapolate this year's four month result through to 30 June 2008 or 31 December 2008. Our CEO will expand on trading issues and a one-off gain of between \$10 million to \$12Million from a "GST on Holdback" claim to be lodged with the Australian Taxation Office, the subject of our release to the Market on the 7<sup>th</sup> of this month.

As you will have realized, 2007 was another extremely active year for A.P. Eagers with numerous business and property acquisitions. These activities placed tremendous pressure on the Group's management and staff and I thank them sincerely for their efforts in coping with the extra demand. A tremendous effort.

I now ask our Managing Director and Chief Executive Officer Mr Martin Ward to present his overview of the Group's 2007 trading and to comment on how he sees the year ahead.



**Chief Executive Officer's Address to the  
Annual General Meeting  
Held on Friday 23 May 2008**

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Thank you, Ben, and good morning ladies and gentlemen.

As I approach the third anniversary of my employment with A.P Eagers I grow more enthusiastic about the Company's future prospects. Saying I am confident of further expanding our operational base and continuing to add to shareholder value continues to be an understatement.

I believe the executive management team put in place over the last 18 months or so, gives us the capability to support a further doubling in the scope and value of the business. The mixture of skills, automotive and alternate industry experience, will contribute greatly to the growth and development of the business.

You may have noted in the executive remuneration disclosure in the Annual Report that share ownership on the part of employees is a core driver of the Company's future prosperity. It is estimated that some 4% of the shares on issue are now owned by employees. Following the establishment of a broad base of employee share ownership, future issues to employees under the tax free employee share plan will be linked to earnings and productivity benchmarks. Opportunities for executive share ownership will continue to be linked directly to performance criteria.

Whilst being a relatively small company we are blessed with a dynamic board with extremely relevant, diverse skills. You have a very active board and I would like to personally thank them for their support of me in my role as Chief Executive Officer.

I wish to cover a number of factors today that I hope will provide a good insight into the future prospects for your Company and I would like to start by reviewing the motor industry on which our core operations depend.

**The Industry**

For the first four months of 2008 new vehicle sales nationally are 16,382 units ahead of the same period in 2007, a lift of 5.1%. In Queensland the uplift is 2.1%, NSW 3.8%, South Australia 7.6% and the Northern Territory an impressive 14.4%.

A more detailed review of the data shows that successive official interest rate rises and a tightening credit market have softened private buyer activity. This slowdown is also apparent in other retail sectors. The continued overall strength in the Australian economy is highlighted by the continued strength of business sector vehicle demand. Our expectation, and that of a number of market commentators, is that the new car market will stabilise at between 1 million units and 1.05 million units in 2008, representing either no fall off in sales or at most 5% down on 2007. This would still represent the second highest level ever.

Record high petrol prices are having an impact on brand and vehicle mix, not overall volume, as evidenced by growth in the light vehicle and diesel vehicle segments. The average sale price however of new vehicles within our Group has not been impacted and remains stable.

Looking at year to date April 2008, nationally, Toyota continues to dominate the market with a 23.3% share followed by Holden on 13.7%, Ford on 9.9%, Mazda on 8.2% and Mitsubishi on 6.2%.

Strong movers are Toyota, up 11.6%, Mazda up 10.1%, Hyundai up 10.3%, Volkswagen up 22.2%, Kia up 15.0%, and Audi up 33.1%. Concerns are Holden down 10.1% and Honda down 5.2%.

A.P. Eagers holds franchises for the top 10 selling vehicle brands in Australia and 26 of the top 30 brands. We should not underestimate the fact that the wide spread of franchises that we hold and attract substantially lessens our exposure to the risk inherent in single franchised operations. Going forward we are in good shape to benefit from the model proliferation that is helping drive the Australian new vehicle market.

## **Property**

Turning now to property issues I would like to make a few observations.

To improve the disclosure and understanding of the property component of our business, we have early adopted accounting standard AASB 8 which allows the reporting of an internally focused property segment. The reporting of this property segment confirms that the performance of our property assets is consistent with that of comparable listed property trusts.

Centrally controlling property assets and applying market based rentals to dealership businesses is a key driver and discipline within our business and is generating value through ensuring the appropriate management decisions are made.

Optimising our property portfolio continues to be a major focus and extremely low vacancy rates in the Brisbane City area are creating potential re-development opportunities for city fringe locations. Dealership sites tend to be attractive to developers due to their relatively large size. The Woolloongabba area of Brisbane in particular is currently subject to a re-zoning application which may result in significant re-development in that area. Opportunities also exist at Newstead and Fortitude Valley.

The sale of our City Automotive Group property in Breakfast Creek Road at Newstead in December 2006 and the subsequent relocation of the City Subaru, Peugeot and Mitsubishi businesses to existing underutilized properties demonstrates the potential in our property portfolio.

Dealership facility development is currently in progress in Newcastle, NSW with the development of new premises for the BMW franchise, Windsor in Queensland with the renovation and new service and showroom facilities for Holden and Mitsubishi, and at Mt Gravatt, Queensland with the development of Land Rover/Volvo service facilities.

The Group's land and buildings portfolio was valued by Directors at \$314 million as at December 31, 2007.

## **Borrowing Facilities**

Moving now from property to our borrowing facilities. The Company's bailment debt facilities were re-negotiated in a competitive tender process in the second half of 2007. The resulting five year agreements were secured on terms that compare very favourably with those currently available in Australian debt markets.

Our corporate borrowings are in the form of fixed and variable rate commercial bills and are not due for repayment until at least October 2009. Our interest cover improved by 10% in 2007 and gearing including bailment debt, (measured as debt over debt plus equity) increased only marginally in 2007.

Our total borrowings of \$322 million as at 31 December 2007 included \$188 million of bailment finance, also known in the industry as floorplan.

As a matter of interest, our total borrowings could effectively be offset by the value of our land and building portfolio which has been valued at \$314 million. Although we have no intention to do so, the implication is that we could operate our trading operations virtually debt free if we chose to.

Before moving on to 2008, let me quickly make a few comments on 2007's existing business performance and 2007's acquisitions performance.

### **2007 Existing Businesses**

Pleasingly our existing businesses had a substantial increase in revenue and margin. While the strength of the overall vehicle market (up 9.1%) and the strong economy were significant contributors, the addition of a dedicated Fixed Operations Manager for our Queensland and Northern Territory business has resulted in a marked improvement in our Service business.

Our parts distribution businesses continue to battle high property costs and strong competition. In late 2007 we merged three parts distribution centres into two and further measures are required to improve the margins in this business.

Regardless of the outlook for the Australian economy, management is confident that further margin improvement can be achieved.

### **2007 Acquisitions**

Now let's look at our 2007 acquisitions performance.

The Kloster Motor Group, acquired in February 2007 comprising Ford, BMW / Mini, Honda, Nissan, VW, Mitsubishi, Hyundai, Chrysler / Jeep / Dodge and Suzuki dealerships in the Newcastle and Hunter Valley region of New South Wales, performed better than expected in contributing earnings before interest and tax of \$9.9 million.

Our Adtrans Group investment, currently a 22.75% shareholding, contributed a profit after tax of \$1.5 million in 2007. Adtrans is performing very well with strong results from both its truck franchises and motor vehicle dealerships resulting in a forecast 20% profit upgrade for its 30 June 2008 financial year as compared to the previous year. We are very satisfied with our investment in Adtrans.

We acquired the strongly performing Surfers City Holden, Saab and Hummer dealership in August 2007. This well run operation is one of the nation's best performing Holden dealerships. It contributed \$1.2 million of earnings before interest and tax in 2007.

Our 2007 acquisitions were primarily funded through operating cash flow and proceeds from the 2006 property sale, and the 2006 rights and placement issues. Of the \$128 million invested in acquisitions and development, only \$28 million was sourced from additional debt.

The Bill Buckle Auto Group acquisition in March 2008 provides an opportunity to generate value from a well located Sydney market business, with great facilities, great people and fast growing premium brands ideally suited to the market it is in. The Bill Buckle Auto Group acquisition has been funded through additional debt facilities.

And where have these corporate activities left us operationally?

By and large in a strong position going forward but with as always a few areas that can be improved.

Before we move on to 2008 lets view a short 3 minute DVD that has been updated since last year which shows existing businesses as well as the new acquisitions.

## **April YTD 2008**

Let's now move on to 2008.

I think we can be very proud of our unaudited 32% increase in profit before tax for the 4 months January to April 2008. We need to be mindful however that this has included businesses such as Adtrans and Surfers City Holden that were not in our Group this time last year and Klosters which only became part of the Group from March 1<sup>st</sup>, 2007. It is pleasing however to note that once again the improvement has come from both existing and new business units.

Before I move on to the future let me make comment on two tax matters that have arisen in recent months, one in our favour and one not.

### **GST on Holdback**

The Chairman advised that I would comment on a claim to be lodged with the Australian Taxation Office for GST paid on holdback.

On the 7<sup>th</sup> of May 2008 we disclosed to the market that as a result of a Federal Court Ruling, which has been accepted by the Commissioner of Taxation, the Group would submit a claim to the ATO for a refund of GST paid on holdback payments that had been made on what turned out to be a "Non Taxable Supply". In accepting the court ruling the ATO also advised that dealers are entitled to seek to recover the GST paid on holdback payments for the period 1 July 2000 to 30 June 2005.

The estimated size of the Group's claim is in the region of \$10 million to \$12 million, probably at the higher end of that range which is expected to be reflected in our Group accounts as a one-off taxable gain prior to the end of June this year.

### **Luxury Car Tax**

The recent Federal Budget introduced an increase in the level of LCT which is expected to become effective from the 1<sup>st</sup> of July 2008. This is a disappointing outcome and appears to be "policy on the run" which was not discussed with the Federal Chamber of Automotive Industries. A relatively small drop in the volume of luxury car sales will offset any increase in tax the Federal Government will receive from the increased rate. The impact of the increased LCT on the A.P. Eagers Group as a whole is expected to be negligible. Only 6% of the Group's new vehicle sales incurred LCT last year. We are nurturing our small but growing luxury car franchises for long term growth and will continue to do this although the challenge is now harder. This LCT increase could cause a dramatic shake-up in luxury dealership networks across the country and A.P. Eagers will cautiously review opportunities.

### **The 2008 Outlook and the Future**

Forecasting short term, i.e. half year (2 months) and full year (8 months) is extremely difficult at present. In summary we have had successive Australian Reserve Bank interest rate rises, the US sub-prime derived credit crisis, Queensland stamp duty changes since January 1 and now a National LCT increase from July 1. Forecasting short term is extremely difficult particularly as the Group had a very good May and June last year and a good second half.

A 32% increase is a great place to be sitting after 4 months but consumer confidence and purchasing are showing downward trends over the months of March and April.

What we can, and do have great confidence in, is our plan to improve this great Company. We are working to achieve improvement in four ways: internal operational improvements; better property utilisation; organic growth; and further acquisitions.

Substantial internal improvements were made during 2007 and have continued during the first 4 months of 2008 and a recent strategic review process assisted in defining additional improvement opportunities in the areas of:

- People retention, management and development;
- Business processes; and
- Information systems.

Better property utilisation will allow for new modern dealership facilities to be constructed to meet manufacturers' and customers' future requirements, whilst being more efficient and operating on sustainable rents for the long term. This specifically relates to the Group's substantial dealership and land portfolio in the Woolloongabba, Fortitude Valley and Newstead areas.

The economics of this process will fully fund these new facilities and provide additional funds to continue the growth of the Company.

Organic growth plans are currently being refined for execution late 2008 and early 2009 and more information will be forthcoming later in the year.

And finally, growth via carefully planned and executed acquisitions will continue. Our previous track record being a guide on how we see the next few years regarding growth in this manner.

I would also like to extend my thanks to each and every employee of the A.P. Eagers team which is now around 2,300. Daily commitment to thousands of customers is really what drives this Group. As I mentioned previously more than 65% of our team, around 1,500 employees are now shareholders and together we can grow the legacy of this great Company.

As has the Chairman, I would also like to acknowledge the significant contribution made by Dennis Hull over an extended period of time to the growth and development of the Group. On behalf of the Directors and all employees we wish him well for his impending retirement in July this year.

Finally may I say that 2007 was another exciting year for your Company and I am pleased to see shareholders rewarded by way of substantially increased dividend returns and a resilient share price. The world's stock markets have been extremely volatile over the last six and twelve months and therefore it is worth noting that based on data at the end of April 2008 A.P. Eagers has outperformed the All Ordinaries Index over the last 6 months, 1 year, 3 years, 5 years and 10 years.

Once again may I say that it is an honour and privilege to lead this great Company, the job is far from done however and you can no doubt gauge the momentum that has carried over into 2008 and be assured that we will be working hard to see that it continues.

Thank you.