



**Mr Martin Ward
Chief Executive Officer
A.P. Eagers Limited**

**Annual General Meeting
9.00am on Friday 12 May 2006**

Thank you Ben and good morning ladies and gentlemen.

May I firstly say what an honour and privilege it is to be offered the opportunity to join such a vibrant and dynamic organisation as Chief Executive Officer. The fact that the Company is in such a strong position in the Australian Retail Motor Industry is a credit to the foresight of your Board and management.

At the farewell party last November for the former Managing Director Mr Ken Macdonald I mentioned how impressed I was by the strength of this Group's Senior Management. In that regard I am talking about not only the Corporate Executives but also the operational General Managers. I am extremely impressed by the calibre of the management team, so much so that I have made virtually no change to the existing structure. I might also add that I was very impressed by the extent and quality of the Group's franchise and property portfolios. What a solid base to build on.

Before I talk about our Company's performance, let's review our industry.

As we now know 2005 was yet another record year, the fourth in a row, for new vehicle sales in Australia with 988,000 vehicles being sold.

Toyota was once again market leader with almost 203,000 vehicles followed by Holden with 174,000 and Ford with 129,000. Whilst Toyota increased sales by 1,000 vehicles, Holden was down by 3,500 vehicles and Ford was down 6,000 vehicles. These 3 brands represent half of all car sales in Australia but combined lost 2.6% market share during 2005.

Over the past year there has been a change in buying habits from large to small and mid size vehicles as petrol prices rose. The lost share I just mentioned by the big 3 was picked up by imported brands in particular Mazda, Honda, Hyundai, Volkswagen and Subaru who combined, increased their share by 2.9% with Honda picking up a full 1% representing increased annual unit sales of 10,500, phenomenal growth.

All of the facts just mentioned are national numbers with national Australian vehicle sales increasing by 3.5% in 2005. A.P. Eagers however is fortunate to operate in Queensland and the Northern Territory where vehicle sales increased by a much larger 6.7% and 7.2% respectively during 2005.

As our Chairman mentioned, because of our franchise spread our risk is lessened as we represent eight out of the top ten volume franchises. Whilst one or two of our franchises are currently a little off the pace others are powering ahead and collectively the Group's franchise portfolio is exceptionally strong.

A word on YTD April 2006. Nationally 303,000 vehicles have been sold which is 3.4% less than the same period in 2005. However, the Federal Chamber of Automotive Industries is still maintaining its forecast for 2006 at 980,000 vehicles just short of last years record. With significant launches in the second half of the year, particularly from Toyota and Holden, current economic conditions suggest this volume can be achieved.

Moving on to A.P. Eagers specifically:

The recent addition of Bayside Honda / Kia at Cleveland offers tremendous prospects in a population growth area and extends the Group's presence in the strengthening Honda and Kia franchises. Additionally the acquisition in March of Brisbane Motor Auctions brings back to the Group a motor vehicle auction facility that is destined to play a leading role in improving our earnings per share, not only in the earnings it will directly generate but also in the ability of the Group to more effectively dispose of its wholesale used vehicles.

In so far as further expansion plans are concerned we are actively pursuing a number of current opportunities and we believe that as independent motor vehicle dealers seek to retire the opportunities for a Group like A.P. Eagers to acquire new businesses will accelerate over the next few years.

Additionally, there is a growing acceptance from key manufacturers to involve public companies in their expansionary plans as the cost of entry into the industry increases. 2005 saw the emergence of two more public company participants in Australia, Automotive Holdings Group in Western Australia and the Imperial Group of South Africa who last year acquired the lion's share of the Ford Sydney RJV. A.P. Eagers whose business is 100% motor industry related is well positioned to further its expansionary aims with astute buying in a rapidly changing industry environment and I am greatly enthused about the future potential of this company.

Following on from the Chairman's comments on property, I would like to report on the major advancements that have taken place on your property portfolio during 2005 and 2006.

Last year Ken Macdonald reported that the storage of new vehicle stock was a major concern along with suitable pre-delivery facilities. I am pleased to report that with the acquisition of Brisbane Motor Auctions we took over the lease of a 5.2 hectare property at Eagle Farm that will not only house the auction business but also provide sufficient space to establish a viable storage and pre-delivery centre for the Group's central and Southside dealerships. The Group's existing pre-delivery centre at Brendale can now cope with the growing North Brisbane dealerships requirements including the new North Lakes development. This is a great outcome for the Group.

A number of building projects were completed and became operational at the end of 2005. Southside Toyota's new facilities at Upper Mt Gravatt were completed in November providing full dealership facilities including service and parts whereas previously only new and used vehicle sales existed on that site.

Group facilities at 1388 Logan Road, Mt Gravatt previously leased to an external tenant have been fully upgraded for Southside Volvo and Southside Land Rover. These facilities also became operational in November 2005.

The refurbishment of Southside Ford at Woolloongabba was substantially completed during the first quarter of this year with minor works being finished at present.

Construction of Torque Toyota's new facility at Brendale is well underway for an operational start in the third quarter of this year and will operate alongside a new Kia franchise recently secured from the manufacturer.

Particularly important to us is the acquisition of a property on the corner of Milton Road and Miskin Street, at the Toowong roundabout onto which we can amalgamate the Group's Western suburbs Subaru franchise which currently operates from three leased sites. A development application for this new site is currently with Council and we hope to be operational there in the last quarter of the year. It has taken us almost two years to find a suitable site in the Western suburbs of Brisbane that met both the franchisor's and our own requirements.

Construction has now commenced on the new premises for Torque Toyota, Torque Ford and Torque Honda at North Lakes. Toyota and Ford are expected to be operational before the end of this year and Honda early in the new year.

I would like to take this opportunity to highlight that whilst there is a cost required to build a facility and establish a brand, both Torque Kia at Brendale and Torque Honda at North Lakes have been secured as "open points" from the manufacturers and therefore no goodwill has been paid to add these businesses to the Group's portfolio. As stated, both will become operational within 12 months.

As the Chairman mentioned, there is a cost of holding and developing all of these properties, which, together with unutilized properties, affected the Group's bottom line by an amount close to \$2million in 2005.

These holding costs actually increase during 2006 to around \$3 million however we strongly believe the short term profit impact is far outweighed by the financial benefits to be obtained in 2007 and beyond and the overall increasing value of the assets we are investing in. We hope from our presentation today that you will also be excited by these prospects. Of course as these properties come on stream and surplus property is sold, the holding costs will diminish.

The Chairman mentioned that I was looking to achieve some additional operational efficiency and one way I believe this can be achieved is through the use of equity.

I am a firm believer in the view that management and employees with equity in the business become more result driven and from reading the remuneration report you will have seen that the Board approved and has introduced a number of employee share plans which I believe will have a growing impact on the company's bottom line through increased productivity and efficiency gains as employee ownership grows.

The allocation of \$1,000 worth of tax free shares in the Company to eligible employees, approved by the Board for both this year and next year is part of a plan to reduce staff turnover and help attract quality employees. A number of occupations within our industry have notoriously high staff turnover with a consequential high replacement and training

cost. We are looking to arrest this high staff turnover and create a more stable and efficient workforce.

More focused industry benchmarking has also been introduced to ensure that we do operate at maximum efficiency and whilst our operational standards are high, there is always room for improvement.

Before I summarise, a few words on 2006. The Chairman mentioned our unaudited results for the first quarter were up 5.5%. We do not forecast the future, however we have gone to some lengths today to highlight our current property opportunities along with the short term costs associated with them. Last years Bridge Toyota acquisition and solid Group trading have helped our first quarter results to exceed the same period last year, whilst also covering our increased holding costs and other short term trading costs associated with the recent acquisitions from the receivers of Auto Group. Management expects to continue to produce a growing and solid result from current business and to add acquisitions where appropriate.

To summarise, I believe three components have to be aligned to be successful in the motor retail industry. Great people, great products, and great facilities in the correct locations. Taking these in reverse, your Company has not great but outstanding land and facilities in superb locations not only for today but also for tomorrow's growth and it astutely continues to purchase for the long term growth.

Great product in our case is driven by our outstanding franchise portfolio representing 15 of the world's best known car brands.

Our great franchise portfolio and our great facilities certainly help to attract great people, however the culture at A.P. Eagers, particularly continuing internal career opportunities, has also resulted in securing over time a management and employee team that is truly class leading in the Australian industry. The addition of real employee ownership and recognition is designed to take us to the next level, striving for world class benchmarks.

Taking these three fundamentals into consideration and then recognising four years of record industry growth, which has been proportionally greater in Queensland and the Northern Territory, it goes some way to explaining why I am excited and confident about the Group's future.

There is one other fact to consider and that is the ability to grow through acquisition and our two most recent acquisitions were exceptional value. We are continually approached with opportunities and we also seek out our own targeted ones. Industry dynamics should result in considerable consolidation over the next decade leading to short, medium and long term growth prospects. We have been busy recently and we expect to soon announce the acquisition of a further dealership to add to the Group at a cost in the \$10m to \$15m range.

To finish, I would like to repeat that I regard it as an honour to hold the position of Chief Executive Officer of this great company and I will use all of my energy and knowledge to deliver you the owners the results you deserve. Thank you.