



## A.P. EAGERS LIMITED

### ANNUAL REPORT - 31 DECEMBER 2006

#### FINANCIAL REVIEW

Year ended 31 December	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
<b>OPERATING RESULTS</b>					
REVENUE	1,174,336	1,071,955	912,648	843,309	751,583
EBITDA before significant items	40,370	37,149	31,192	26,669	22,778
Share of associate's profits (losses)	922	(3,794)	384	61	270
Profit on sale of properties	15,012	2,794	-	-	217
EBITDA	56,304	36,149	31,576	26,730	23,265
Depreciation and amortisation	(5,743)	(5,133)	(4,484)	(4,606)	(4,707)
EBIT	50,561	31,016	27,092	22,124	18,558
Finance Costs	(13,748)	(11,884)	(9,266)	(6,909)	(6,231)
PROFIT BEFORE TAX	36,813	19,132	17,826	15,215	12,327
Income tax expense	(11,026)	(5,834)	(5,207)	(4,717)	(3,765)
PROFIT AFTER TAX	25,787	13,298	12,619	10,498	8,562

#### OPERATING STATISTICS

Basic earnings per share - cents	110.5	61.0	61.6	54.9	51.9
Dividends per share - cents	43	38	36	33	31
Dividend franking - %	100	100	100	100	100

As at 31 December	2006 \$'000	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000
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#### FUNDS EMPLOYED

Contributed equity	106,264	77,311	72,626	59,034	48,457
Reserves	89,913	47,674	40,609	38,660	12,990
Retained earnings	43,301	36,054	36,201	31,301	23,379
Total equity	239,478	161,039	149,436	128,995	84,826
Non-current liabilities	127,820	101,388	85,408	73,772	49,762
Current liabilities	166,029	160,651	141,833	106,330	113,566
Total liabilities	293,849	262,039	227,241	180,102	163,328
TOTAL FUNDS EMPLOYED	533,327	423,078	376,677	309,097	248,154

#### REPRESENTED BY

Property plant and equipment	240,965	187,886	174,529	156,141	91,414
Intangibles	26,403	23,131	13,060	8,375	8,859
Other non-current assets	2,682	6,673	11,676	7,866	8,213
Current assets	263,277	205,388	177,412	136,715	139,668
TOTAL ASSETS	533,327	423,078	376,677	309,097	248,154

#### OTHER STATISTICS

Net tangible asset backing per share- \$	8.08	6.22	6.34	6.17	4.64
Shares on issue - \$'000	26,366	22,177	21,512	19,564	17,078
Number of shareholders	2,565	1,620	1,657	1,695	1,512
Net debt (total debt less bailment finance less cash) - \$'000	53,736	91,106	78,778	68,587	48,649
Gearing ratio (net debt/net debt plus total equity) - %	18.3	36.1	34.5	34.7	36.4

#### Bailment Finance

Bailment is a form of financing peculiar to the motor industry and is provided by a financier on a vehicle by vehicle basis. It is of a short term nature, is generally secured by the vehicle being financed and is principally represented on the borrowers balance sheet as vehicle inventory with the liability reflected under Current Liabilities. Because of its short term nature it has been excluded from net debt and the gearing ratio.

#### ANNUAL GENERAL MEETING

The Annual General Meeting of A.P. Eagers Limited will be held at the Company's Registered Office, 80 McLachlan Street, Fortitude Valley, Brisbane on Friday, 18 May 2007 at 9.00 am.

## A.P. EAGERS LIMITED

### ANNUAL REPORT - 31 DECEMBER 2006

#### COMPANY PROFILE

A.P. Eagers Limited has its origins in the formation of E.G. Eager & Son Pty Ltd, a family automotive company established in Brisbane in 1913 by Edward Eager and his son Frederick.

After establishing the State's first motor car assembly plant, Eagers became the distributor of General Motor's products in Queensland and Northern New South Wales and listed as a public company in April 1957.

A merger in November 1992 with A.P. Group Ltd which owned a number of new vehicle franchises, saw the name change to A.P. Eagers Limited. Since that time further motor vehicle franchises have been added and growth has continued. Bridge Toyota in Darwin acquired in May 2005 was the Group's first acquisition outside of Queensland whilst its acquisition of the Kloster Group in March 2007 heralded the Group's advance into New South Wales.

A.P. Eagers has a market capitalisation of \$303 million (based on a share price of \$11.20 on 10 April 2007), employed 2,000 people as at 1 March 2007, had 2,567 shareholders and sales revenue running at \$1.5 billion per annum.

Operating in the Brisbane Metropolitan area, Darwin in the Northern Territory and the Newcastle / Hunter Valley region of New South Wales, the company's focus is on its core business of owning and operating motor vehicle dealerships which provide full facilities covering new motor vehicle sales, used motor vehicle sales, service, spare parts and the provision of allied consumer finance. These services are provided through some of the country's best known dealerships as listed below.

Franchise:	Dealership:	Franchise:	Dealership:
● Holden	Eagers Holden, Newstead / Windsor / Townsville	● Mazda	Eagers Mazda, Newstead
● Ford	Southside Ford, Woolloongabba	● Porsche	Porsche Centre Brisbane, Newstead
	Metro Ford, Fortitude Valley / Eagle Farm		Porsche Centre Darwin, Darwin
	Torque Ford, North Lakes / Brendale	● Subaru	City Subaru, Newstead
	Hidden Valley Ford, Darwin		Subaru Toowong, Toowong
● Toyota	Southside Toyota, Woolloongabba/Mt Gravatt		Subaru Darwin, Darwin
	Torque Toyota, North Lakes / Brendale	● Peugeot	City Automotive Group, Newstead
	Bridge Toyota, Darwin / Palmerston	● Mitsubishi	City Automotive Group, Newstead
● Honda	Austral Honda, Newstead	● Lexus	Lexus of Darwin
	Southside Honda, Buranda	● Proton	Stuart Motor Group, Darwin
	Bayside Honda, Cleveland	● Audi	Audi Centre, Darwin
● Land Rover	Austral Land Rover, Fortitude Valley		Audi Centre, Sunshine Coast
	Southside Land Rover, Mt Gravatt	● Citroen	Citroen Sunshine Coast, Sunshine Coast
● Volvo	Austral Volvo, Fortitude Valley		
	Southside Volvo, Mt Gravatt		
● Jaguar	Brisbane City Jaguar, Fortitude Valley		
● VW	Austral Volkswagen, Newstead		
● KIA	Eagers Kia, Kedron / Windsor		
	Bayside Kia, Cleveland		
	Torque Kia, Brendale		

In March 2007 the Group acquired the Kloster Motor Group in the Newcastle / Hunter Valley region of New South Wales which operate the following franchises: BMW / Mini, Chrysler Jeep and Dodge, Ford, Hyundai, Honda, Mitsubishi, Nissan, Suzuki and Volkswagen.

#### Motor Vehicle Auctions

In addition to its franchised businesses the Group operates a substantial motor vehicle auction business, Brisbane Motor Auctions, from premises on Curtin Avenue, Eagle Farm.

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#### Financial Calendar

Financial Year End	31 December Annually
Full Year Results Announced	28 February 2007
Record Date for Final Dividend is	10 May 2007
Annual General Meeting	18 May 2007
Final Dividend Payable on	21 May 2007

## DIRECTORS' REPORT

Your Directors present their Report on the consolidated entity consisting of A.P. Eagers Limited and the entities it controlled at the end of, or during the year ended 31 December 2006.

### Directors

The following persons were Directors of A.P. Eagers Limited (A.P. Eagers) during the whole of the financial year and up to the date of this report:

Benjamin Wickham Macdonald, Nicholas George Politis and Antony James Love.

Denis Alan Aitken was a Director from the beginning of the financial year until his retirement on 31 March 2006.

Martin Andrew Ward was appointed as a Director on 6 March 2006.

Peter William Henley was appointed as a Director on 8 December 2006

### Principal Activities

The principal continuing activities during the year of the consolidated entity consisted of the selling of new and used motor vehicles, the distribution of parts and accessories and the provision of service, finance, leasing and extended warranty for motor vehicles. The products and services supplied by the consolidated entity are associated with and are an integral part of the consolidated entity's motor vehicle dealership operations. There were no significant changes in the nature of the consolidated entity's activities during the year.

### Consolidated Results

Year ended 31 December	2006 \$'000	2005 \$'000
Revenue from operations	1,170,243	1,070,464
Other revenue	4,093	1,491
Total revenue	<u>1,174,336</u>	<u>1,071,955</u>
EBITDA before profit on sale of properties & equity accounting	40,370	37,149
Share of associates profits (losses)	922	(3,794)
Profit on sale of properties	15,012	2,794
EBITDA	<u>56,304</u>	<u>36,149</u>
Depreciation and amortisation	(5,743)	(5,133)
EBIT	<u>50,561</u>	<u>31,016</u>
Finance Costs	(13,748)	(11,884)
PROFIT BEFORE TAX	<u>36,813</u>	<u>19,132</u>
Income Tax Expense	(11,026)	(5,834)
PROFIT AFTER TAX	<u>25,787</u>	<u>13,298</u>

### Earnings Per Share (EPS)

	2006 Cents	2005 Cents
Earnings per share - basic	110.5	61.0
Earnings per share - diluted	108.2	59.6

### Dividends - A.P. Eagers Limited

Dividends paid to members during the financial year were as follows:

Year ended 31 December	2006 \$'000	2005 \$'000
Final ordinary dividend for the year ended 31 December 2005 of 20 cents (2004 - 19 cents) per share paid on 15 May 2006	4,458	4,087
Interim ordinary dividend of 19 cents (2005 - 18 cents) per share paid on 2 October 2006	4,261	3,935
	<u>8,719</u>	<u>8,022</u>

In addition to the above dividends, since the end of the financial year the directors have recommended the payment of a final fully franked ordinary dividend of 24 cents per share to be paid on 21 May 2007 out of retained profits at 31 December 2006.

## DIRECTORS' REPORT (continued)

### Review of Operations

The Australian new vehicle market declined by 2.6% in the calendar year ended 31 December 2006, recording total sales of 962,666 units, down 25,603 units on 2005, reflecting dampened Fleet and Government business as a consequence of petrol price increases and interest rate rises.

Toyota improved its position as market leader, primarily at the expense of Ford and Holden, increasing its market share by 1.7% to 22.2%. Holden fell 2.5% to 15.2% with Ford falling 1.2% to 11.9%.

Of the other top ten brands by sales volume, Honda and Volkswagen performed extremely well with Honda increasing its market share by 0.8% to 5.6% and Volkswagen by 0.6% to 2.2%. These figures translate to volume increases of 15.3% and 36.7% respectively.

The Group's total revenue for the year ended 31 December 2006 was \$1.174billion, up \$102.3 million (9.6%) on the previous corresponding period due to operational acquisitions during 2005 and 2006.

Revenue from existing businesses which were operated prior to these acquisitions was down 3.4% on the previous year with the Group's Ford and Holden operations being the biggest contributors to that decline.

Conversely, the Group's other franchises increased turnover as market sentiment switched from the large to the small car segment.

Consolidated profit before tax for the year was \$36.8million inclusive of \$15million surplus property sale profit (2005: \$19.1million after including \$2.794 surplus property sale profit and a loss of \$3.794million following the collapse of Auto Group Ltd).

Consolidated profit after tax was \$25.8million (2005: \$13.3million).

The result was achieved after expensing \$872,000 in respect of the deemed benefit provided to 877 employees who each received \$1,000 worth of free shares in the Company under the Company's Tax Exempt Share Plan.

Consolidated sales revenues and results are set out below.

	Revenue		Results	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Franchised operations	1,170,243	1,070,464	14,408	13,379
Internal interest & rental charges			14,105	13,016
Operating contribution			28,513	26,395
Profit on sale of properties			15,012	2,794
Equity accounting of associates			922	(3,794)
Net unallocated expenses			(7,634)	(6,263)
Net profit before tax			36,813	19,132
Tax expense			(11,026)	(5,834)
Net profit after tax			25,787	13,298

Franchised Operations	Revenue		Results	
	2006 \$'000	2005 \$'000	2006 \$'000	2005* \$'000
New Vehicle Departments	696,217	688,674	4,215	4,255
Used Vehicle Departments	261,548	184,550	1,057	(1,268)
Parts Departments	156,673	146,040	5,660	6,359
Service Departments	55,805	51,200	3,476	4,033
	1,170,243	1,070,464	14,408	13,379

\*Internal rental charges were increased in 2006 to reflect commercial rents based on current property values. The 2005 comparative figures have therefore been restated on a like for like basis so as to provide a meaningful comparison.

## DIRECTORS' REPORT (continued)

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### New Vehicle Operations

As a consequence of the reduced new vehicle demand from Fleet and government the Group sold 421 fewer new vehicles in 2006 than in 2005 (23,331 as against 23,752).

Despite the drop in volume, the Group's new vehicle departments recorded a profit result of \$4.215 million comparable with the 2005 result of \$4.255 million. Gross profit margins, whilst still tight, improved marginally being assisted by the higher content of retail business which accounted for 64.2% of total new vehicle sales (2005: 59.4%).

### Used Vehicle Operations

The Group's used vehicle sales numbers lifted dramatically from 5,421 units in 2005 to 12,316 units in 2006 following the acquisition of Brisbane Motor Auctions in March 2006. Retail used vehicle numbers increased 22% from 5,421 to 6,399 and improved operating procedures meant the used vehicle departments' contributions to profits substantially improved.

Used vehicle department profitability improved by \$2.325million to \$1.057million from a loss of \$1.268million in 2005.

### Fixed Operations (Parts and Service)

Both parts and service operations lifted sales volume during the year, however returns were eroded by pressures from a tight labour market and higher fuel costs leading to increased freight and employment expenses. A specialised Group Fixed Operations Manager is to be employed to drive improved operating procedures from these departments.

The Parts departmental profit in 2006 fell by \$0.7 million to \$5.66 million from \$6.36 million in 2005 whilst service profitability declined by \$0.56 million to \$3.48 million from \$4.03 million in 2005. Greater management focus will be placed on these departments during 2007.

### Likely Developments

Other than developments mentioned elsewhere in this report the Company continues to evaluate potential acquisition opportunities within the motor vehicle industry.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report as the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

### Investments

The Company has a 19.4% investment (546,900 shares) in MTQ Insurance Services Limited (MTQ). The majority of shareholders in MTQ are motor vehicle dealers who use the company to provide consumer credit and gap insurance to purchasers of vehicles who buy from them on credit. MTQ performed exceptionally well in 2006 producing its fourth record result in a row.

### **Significant Changes in the State of Affairs.**

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- a) An increase in contributed equity of \$28,952,727 (from \$77,311,420 to \$106,264,147) as a result of the following
  - 1) The issue of 2,804,219 ordinary shares at \$7.00 per share under a one for eight rights issue.
  - 2) The issue of 914,285 ordinary shares at \$7.00 per share by way of a placement.
  - 3) The issue of 113,133 ordinary shares at \$7.70 per share issued free to eligible employees under the Company's Tax Exempt Employee Share Plan
  - 4) The issue of 36,486 ordinary shares at \$6.62 per share to Executives under the Company's Senior Executive Deferred Commission Plan.
  - 5) The issue of 321,028 ordinary shares at between \$7.00 and \$7.30 each under the Company's Dividend Reinvestment Plan.
- b) The acquisition of the following trading businesses for an aggregate amount of \$7.0 million
  - Bayside Honda / Kia (Cleveland, Queensland)
  - Brisbane Motor Auctions (Eagle Farm, Queensland)
  - Frost Motor Group (Darwin, Northern Territory)
  - Audi / Citroen (Sunshine Coast, Queensland)
- c) The purchase of various parcels of freehold land and buildings for an aggregate total of \$15.8million.
- d) The sale of various parcels of land and buildings for an aggregate total of \$44.9million.

In the opinion of the Directors there were no other significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the consolidated accounts.



## DIRECTORS' REPORT (continued)

### Matters Subsequent to the End of the Financial Year.

On 28 February 2007 the Company paid \$29 million to acquire 100% of the shares in Peter Dunn Investments Pty Ltd, Peter Robinson Investments Pty Ltd and Trevor Reading Investments Pty Ltd which collectively owned 100% of the shares in PPT Investments Pty Ltd trading as the Kloster Group in Newcastle and the Hunter Valley region of NSW.

The \$29 million transaction was settled by the issue of 631,581 shares in A.P. Eagers Limited and \$23 million in cash. Concurrently A.P. Eagers Limited purchased all the land and buildings used by the Kloster Group that were owned by the Vendors for \$34 million cash.

The Kloster Group, with turnover of \$300 million per annum is the premier motor dealership group in Newcastle and the Hunter region with impressive facilities in the best locations. They currently have exclusive representation for BMW / Mini, Chrysler Jeep and Dodge, Ford, Honda, Hyundai, Mitsubishi, Nissan, Suzuki and VW within Newcastle along with additional representation for Ford and Hyundai in a number of regional centres in the Hunter Valley.

Since the end of the Financial Year the Directors are not aware of any other matter or circumstance not otherwise dealt with in this report or the consolidated financial statements that has arisen since 31 December 2006 that has significantly affected, or may significantly affect:

- (a) the consolidated entity's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the consolidated entity's state of affairs in future financial years.

### Environmental Regulation

The consolidated entity is subject to environmental regulation in respect of its property development and service centre operations as set out below.

#### Property Development

Planning approvals are required for property developments undertaken by the economic entity. These developments fall under the Queensland Environmental Protection Act 1994 and the Integrated Planning Act 1997. The relevant authorities are provided with appropriate details and to the best of the Directors' knowledge all developments have been undertaken in compliance with the requirements of the planning approvals.

#### Service Centres

The consolidated entity holds environmental licences for its service centres. These licences arise under the requirements of the Environmental Protection Act 1994, Environmental Protection (Interim Waste) Regulations 1996, Environment Protection (Water) Policy 1997, Environmental Protection (Noise) Policy 1997 and Environmental Protection (Air) Policy 1997.

Management continues to work with the local regulatory authority to achieve, where possible, best practice in environmental management so as to minimise risk to the environment, reduce waste and ensure compliance with regulatory requirements. There were no adverse environmental issues during the year.

### Information on Directors

Details of directors' responsibilities, experience and relevant interest in ordinary shares of A.P. Eagers Limited at the date of this report are as follows:

**B W Macdonald FAICD** Chairman of the Board and a member of the Audit Committee.

Independent Non-Executive Director since January 1992. Company Director. Chairman of FKP Ltd and Reef Corporate Services Ltd. Mr Macdonald was Chairman of Queensland Cotton Holdings Limited (December 1991 to December 2005) and Casino Austria International Ltd (from October 1994 to September 2004).

Mr Macdonald has a relevant interest in 84,375 ordinary shares of A.P. Eagers Limited. (2005: 75,000)

## DIRECTORS' REPORT (continued)

### **N G Politis B.Com** Director.

Non-Executive Director since May 2000. Motor Vehicle Dealer. Formerly a Director of the Bank of Cyprus (from August 2000 to June 2006). Executive Chairman of WFM Motors Pty Ltd and a substantial number of other proprietary limited companies.

Mr Politis has a relevant interest in 11,008,485 ordinary shares of A.P. Eagers Limited. (2005: 9,693,801)

### **A J Love B.Com, A.A.U.Q., F.A.P.I. FAICD** Director and Chairman of the Audit Committee.

Independent Non-Executive Director since March 1994. Real Estate Agent. Managing Director of McGee Isles Love Pty Ltd. Director of Campbell Brothers Limited and Bank of Queensland Limited.

Mr Love has a relevant interest in 34,211 ordinary shares of A.P. Eagers Limited. (2005: 24,000)

### **P W Henley AFAM.** Director and a member of the Audit Committee.

Non – Executive Director appointed 8 December 2006. Company Director

Mr Henley has a relevant interest in 2,530 shares of A.P. Eagers Limited.

### **M A Ward BSc (Hons) FAICD** Managing Director and Chief Executive Officer.

Executive Director appointed 6 March 2006. Motor Vehicle Dealer. Formally Chief Executive Officer of Ford Motor Company's Sydney Retail Joint Venture.

Mr Ward has a relevant interest in 25,773 shares of A.P. Eagers Limited (2005: 11,386) and has rights under the Share Incentive Plan referred to below in the Remuneration Report.

## Company Secretary

### **D W Hull FCIS**

Mr Hull is the Company Secretary having been appointed to the role in May 1985. He is a Fellow of the Institute of Chartered Secretaries in Australia, a former National Board member of the Institute and former Chairman of the Institute's Queensland Branch Council. Mr Hull commenced his employment with the Group in February 1983 and held the joint roles of Company Secretary and Chief Financial Officer until October 2001. He is responsible for the Company Secretarial, Investor Relations, Treasury and Compliance functions of the Group.

## Meetings of Directors

The number of meetings of the company's directors (including meetings of committees of directors) and the number of meetings attended by each director during the year ended 31 December 2006 were:

Director	Board Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
B W Macdonald*	13	13	2	2
A J Love*	13	12	2	2
N G Politis	13	12	-	-
D A Aitken*	5	4	1	1
M A Ward	11	11	-	-
P W Henley	1	1	-	-

\*Audit committee members

## Retirement, Election and Continuation in Office of Directors

Mr D A Aitken retired as a Director on 31 March 2006.

Mr M A Ward was appointed as a Director on 6 March 2006.

Mr B W Macdonald is the Director retiring by rotation in accordance with the Company's Constitution who, being eligible, offers himself for re-election.

Mr P W Henley was appointed a Director on 8 December 2006, vacates office in accordance with the Company's Constitution and, being eligible, offers himself for re-election.



## DIRECTORS' REPORT (continued)

### Remuneration Report

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Executive Employment Agreements
- C. Details of remuneration

#### A. Principles used to determine the nature and amount of remuneration

The Board as a whole is responsible for recommending and reviewing remuneration arrangements for the Non-executive directors whilst the full Board (excluding the Managing Director / CEO) determines the reward framework for the Managing Director / CEO. In consultation with the Managing Director / CEO, the Board determines the reward framework for the Group's senior executives.

The broad approach by the Group to remuneration is to ensure that remuneration packages properly reflect individual's duties and responsibilities, are competitive in attracting, retaining and motivating staff of the highest quality and which are aligned to shareholders' interests.

The remuneration framework for the CEO and Senior Executives has been developed to provide, where appropriate, a high proportion of "at risk" remuneration designed to reflect competitive reward for contribution to growth in shareholder wealth.

The remuneration policies in place through to 31 December 2006 are considered to have contributed to the growth in the Group's profits and shareholder returns to that point in time.

Over the past five years the Group's after tax profit has increased from \$8.6 million in FY2001 to \$25.8 million in FY2006 as shown in the table below.

	31.12.06 <sup>(1)</sup>	31.12.05 <sup>(2)</sup>	31.12.04 <sup>(3)</sup>	31.12.03	31.12.02
NPAT (\$'000)	25,787	13,298	12,619	10,498	8,562

<sup>(1)</sup> Includes an after tax profit on sale of surplus property of \$10.0 million.

<sup>(2)</sup> Restated on adoption of revised Accounting Standard AASB 139: Financial Instruments – Recognition and measurement.

<sup>(3)</sup> Restated to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS).

In the same period the Company's share price has risen from \$3.97 per share at 1 January 2002 to \$10.00 per share at 31 December 2006 (\$7.25 as at 31 December 2005).

Earnings per share and dividends paid during the past five years are as follows.

	31.12.06	31.12.05	31.12.04	31.12.03	31.12.02
Earnings per share (c)	110.5	61.0	61.6	54.9	51.9
Dividends per share (c)	43.0	38.0	36.0	33.0	31.0

#### Non-Executive Directors

Non-executive directors are remunerated for their services by way of fees (and where applicable, superannuation) from the maximum amount approved by shareholders in general meeting for that purpose, currently \$300,000 fixed at the Annual General meeting on 14 May 1999. Director's fees are currently \$45,000 per annum (\$60,000 per annum for directors appointed after 1 January 2006 who are not eligible to participate in the Directors Retirement Allowance Program). The Chairman receives \$80,000 per annum.

Non-executive directors' fees are reviewed periodically by the board and are set after considering relevant market conditions and after taking into account the non-executives expectations that they will receive an allowance on their retirement from office under a shareholder approved retirement program. Under that program retiring non-executive directors who have served for a period of not less than five years, may, at the discretion of the directors, receive a retiring allowance. The allowance cannot exceed the total directors fees paid to the director by the Company during the period of three years immediately preceding retirement, resignation or death.

## **DIRECTORS' REPORT (continued)**

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Non-executive directors do not participate in any schemes designed for the remuneration of executives nor do they participate in any equity schemes.

Effective 1 January 2006, the Board resolved to remove retirement allowances for non-executive directors appointed after that date in line with recent guidelines on non-executive directors' remuneration.

### **Executive Pay**

The executive pay and reward framework has four components:

- Base pay and benefits;
- Other benefits such as superannuation;
- Short-term performance incentives; and
- Long-term performance incentives.

The combination of these comprises the executives' total remuneration.

### **Base Pay**

Base pay may be delivered as a combination of cash and superannuation salary sacrificed at the executive's discretion.

Executives are offered a competitive base pay set to reflect the market for a comparable role. Base pay for executives is reviewed annually to ensure the executives' pay is competitive with the market. An executive's pay is also reviewed on promotion.

### **Benefits**

Executives receive benefits including the provision of fully maintained motor vehicles, personal health and fitness programs and in some instances health insurance.

### **Retirement Benefits**

Retirement benefits are delivered under pension funds providing accumulation benefits. Senior executives may sacrifice a portion of their base pay to superannuation.

### **Short-term Incentives**

#### **Incentive Pool**

A short term incentive pool is available for allocation by the Board to non-commission based executives during annual review. Cash incentives are generally payable in December each year.

The short term incentive payment amounts are determined by the Board after considering individual's achievements and the assessed performance of the executive within their particular employment category. To help make this assessment the Board receives reports on performance from the Managing Director / Chief Executive Officer.

### **Commission Structure**

With the exception of the Company Secretary and the Chief Financial Officer, all senior executives remuneration are structured around business performance factors that are measurable, linked to the Company's business strategies and designed to improve shareholder value.

Remuneration packages comprise base pay coupled with a commission structure set at a percentage of net profit before tax of a business unit or business group.

This structure delivered an average remuneration package with a base pay component of 45% and an "at-risk" component of 55% in 2006. (2005:43% and 57% respectively)

## **DIRECTORS' REPORT (continued)**

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### **The A.P. Eagers Senior Executive Deferred Commission Plan**

Primarily linked to the commission structure, the Senior Executive Deferred Commission Plan (SEDC) was established in December 2005. Under the terms of the plan, senior executives can elect to sacrifice a specified portion of their future commission / incentive payments in respect of a Specified Financial Year to participate in the plan.

Plan participants are allocated ordinary shares in A.P. Eagers Limited as soon as practicable after the end of each six month participation period. Shares are allocated at a 10% discount to market and will be held by the A.P. Eagers Limited Share Plan Trust.

Disposal restrictions apply to the allocated shares with plan participants being entitled to all dividends and voting rights attached to the shares.

The purpose of the SEDC plan is to provide participants with an opportunity to share in the growth and value of the Company and to encourage them to improve the performance of the Company and its return to shareholders.

### **Tax Exempt Share Plan**

In conjunction with the SEDC plan the Company also introduced a Tax Exempt Share Plan under which shares to a value of \$1,000 may be granted to employees for no cash consideration. Employees who have been continuously employed by the Consolidated Entity for a period of at least one year are eligible to participate in the plan. Shares issued under the plan may not be sold until the earlier of three years after issue or cessation of employment. The maximum number of shares each participant receives is \$1,000 divided by the market price of the shares on day of allocation.

The purpose of the plan is to provide eligible employees with an opportunity to share in the growth and value of the Company and to encourage them to improve the performance of the Company and its return to shareholders. It is believed that the plan will enable the Company to attract and retain skilled and experienced employees and provide them with the motivation to make the Company more successful.

### **Long-term Incentives**

This component of the remuneration structure will focus on corporate performance and the creation of shareholder value over a multi year period.

The Company is close to finalising a long-term incentive plan with performance hurdles for its Senior Executives excluding the CEO whose remuneration is structured around a specifically designed Share Incentive Plan.

### **Share Incentive Plan (SIP)**

The share incentive plan was established on 1 July 2005 to provide the incoming CEO with an entitlement to performance shares conditional upon the achievement of specified market linked performance targets.

The plan is intended to comprise both the short-term and long-term incentive elements of the Chief Executive Officer's remuneration package.

The performance targets under the SIP are based on the A.P. Eagers Total Shareholder Return (TSR).

TSR is the return to shareholders provided by growth in the share price plus reinvested dividends, expressed as a percentage of the investment over a specified performance period. In determining the Chief Executive Officer's entitlement to shares the A.P. Eagers TSR result is compared to the TSR achieved by a peer group comprising the top 300 ASX Listed companies.

Relative TSR performance was chosen as an appropriate performance measure for the following reasons:

- It is a clearly defined and measurable indicator of the level of value created for shareholders over a specified period and therefore, when used as the basis for determining remuneration reward, provides a linkage between those rewards and shareholder wealth.
- As the value delivered to the Chief Executive Officer is determined by the Company's level of relative performance, the effects of market cycles are minimised. Rewards are reduced or cease during periods of under-performance, even in a rising market and superior performance is rewarded, even in a declining market.

## DIRECTORS' REPORT (continued)

The S & P / ASX 300 index was selected as the peer group as there was no suitable comparative group. At the time of implementation of the SIP there was only one other listed retail motor industry related company.

The SIP provides for the granting of 500,000 performance rights to the Chief Executive Officer on the commencement of his employment with the Company on 1 July 2005.

One fifth of the performance rights will vest each year (i.e. 100,000 per annum on each anniversary of the start date) to the extent performance hurdles are met. Upon vesting the Performance Rights will be automatically exercised and the shares allocated to the Chief Executive Officer. The shares will then be subject to a holding lock restricting disposal of the shares.

The Company's TSR must rank at or above the 51<sup>st</sup> percentile against the peer group for any vesting to be achieved. At the 51<sup>st</sup> percentile, 50% of the relevant performance rights vest; at the 75<sup>th</sup> percentile or above, 100% of the Performance Rights vest; there is straight line vesting between 50% and 100% where TSR performance is between the 51<sup>st</sup> and 75<sup>th</sup> percentile.

For each of the five tranches of 100,000 performance rights, TSR performance is measured initially over a 12 month performance period.

To the extent 100% vesting of a tranche is not achieved, TSR performance is re-tested 12 months later. Performance for each tranche is therefore measured over a 24 month period.

If 100% vesting of a tranche is still not achieved after the first re-test, the relevant performance period is again extended by one year and TSR performance re-tested on the next anniversary of the start date so that performance is measured over a 36 month period.

If after the second re-test, a tranche of Performance Rights is still not 100% vested, the remaining unvested portion will lapse.

It is important to note that the Chief Executive Officer's base pay has been set and fixed at a level considerably lower than could be commanded for a comparable position and that his "at risk" earnings are demonstrably linked to the creation of shareholder value. Accordingly it is considered appropriate that re-testing for vesting purposes, as described above, be permitted to allow for market reaction to longer term strategic initiatives. In the current period, 56% of the Chief Executive Officer's pay is made up of this incentive.

The number of performance rights granted are as follows:

Grant date	No. of performance rights granted	End of performance period	Expiry date	Fair value of each performance right
1 July 2005	100,000	30 June 2006	1 July 2008	\$4.78
1 July 2005	100,000	30 June 2007	1 July 2009	\$4.92
1 July 2005	100,000	30 June 2008	1 July 2010	\$4.68
1 July 2005	100,000	30 June 2009	1 July 2011	\$4.46
1 July 2005	100,000	30 June 2010	1 July 2012	\$4.25

No performance rights have vested as at the date of this report.

### **B. Executive Employment Agreements**

#### **Group Executive**

The following arrangements apply to all executives (excluding the CEO) whose remuneration is disclosed in the "Details of Remuneration" section of this report.

Group Executives are employed under standard employment agreements which are commonly used for senior employees throughout the Group. The agreements do not have a finite term and do not contain any termination payment arrangements. The agreements can be terminated by either the employer or employee giving notice within a range of four to twelve weeks.

The Board has discretion to extend the termination period for an executive as considered appropriate and to make further payments upon the termination of an executive should circumstances warrant it.

## DIRECTORS' REPORT (continued)

### Chief Executive Officer

The Chief Executive Officer's terms and conditions differ from those applying to other executives to the extent that:

- Mr Ward's "at risk" remuneration is as described under the Share Incentive Plan (SIP);
- Mr Ward's employment may only be terminated if he is unable to satisfactorily perform his duties due to illness, injury or accident for a period of 6 months or for cause. In the event that Mr Ward's employment is terminated, other than for cause, then Mr Ward is entitled to a termination benefit equivalent to two times his annual remuneration amount current at time of termination.
- Mr Ward may terminate the agreement at any time by giving the Company six months notice of termination unless otherwise agreed between the Company and Mr Ward.

### C. Details of Remuneration (Audited)

The following tables provide the details of the nature and components of the remuneration paid to both the Directors and the specified executives. Apart from the executive officers listed, there are no other executive officers of the company for the purpose of this disclosure requirement.

	Primary		Post employment		Share Based	Termination	Performance related	
	Salary & fees	Bonus & commissions	Non monetary and other benefits (iii)	Super-annuation benefits	Payments (ii)	Benefits	Total	%
	\$	\$	\$	\$	\$	\$	\$	%
<b>2006</b>								
<b>Directors</b>								
B W Macdonald Chairman	80,000	-	650	-	15,000	-	95,650	-
M A Ward (iv) Managing Director	459,440	100,000	58,114	40,560	-	841,383	1,499,497	56
D A Aitken (v) (Non-Executive Director)	11,250	-	162	1,012	41,250	-	53,674	-
A J Love (Non Executive Director)	45,000	-	650	4,050	5,000	-	54,700	-
N G Politis (Non Executive Director)	45,000	-	650	4,050	5,000	-	54,700	-
P W Henley (vi) (Non Executive Director)	3,692	-	54	332	-	-	4,078	-
	644,382	100,000	60,280	50,004	66,250	841,383	1,762,299	
<b>Executives</b>								
D W Hull Company Secretary	192,300	80,000	133,233	100,200	-	-	505,733	16
G I Walker Chief Financial Officer	162,000	50,000	66,951	20,250	-	-	299,201	17
K T Thornton (vii) General Manager Operations – Vehicles	125,000	230,000	47,782	11,250	-	-	414,032	56
	479,300	360,000	247,966	131,700	-	-	1,218,966	

(i) Accrued but not paid until retirement.

(ii) Performance rights granted to the CEO under the Share Incentive Plan are valued using a Monte Carlo simulation which can be viewed as an extension of the Black-Scholes valuation framework. The portion of the performance rights attributable to the year ended 31 December 2006 of \$841,383, though not yet vested, has been expensed in the income statement in conformity with AASB 2. It should be noted that whilst the value of the performance rights have been expensed in the Company's financial statements and reflected in Mr Ward's remuneration, at the date of this report no shares have been issued to Mr Ward and he has not received any monetary payment in respect of them. The actual issue of shares in respect of the performance rights is subject to the achievement of the performance hurdles previously detailed in this report.

(iii) Includes benefits such as the provision of motor vehicles, insurance policy costs and the movement in the individual's provision for employee entitlements.

(iv) Appointed as a director on 6 March 2006. Remuneration reflected above is for the period 1 January 2006 to 31 December 2006.

(v) Retired as a Director on 31 March 2006.

(vi) Appointed as a director on 8 December 2006.

# DIRECTORS' REPORT (continued)

	Salary & fees	Primary Bonus & commissions	Non monetary and other benefits (iii)	Post employment Super-annuation benefits	Directors Retiring Allowance accrual (i)	Share Based Payments (ii)	Termination Benefits	Performance related Total	%
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>2005</b>									
<b>Directors</b>									
B W Macdonald <i>Chairman</i>	71,000	-	648	-	1,000	-	-	72,648	-
K W Macdonald (iv) <i>Managing Director</i>	273,358	424,525	124,321	95,980	-	-	-	918,184	46
D A Aitken <i>(Non-Executive Director)</i>	40,000	-	648	3,600	40,000	-	-	84,248	-
A J Love <i>(Non Executive Director)</i>	40,000	-	648	3,600	-	-	-	44,248	-
N G Politis <i>(Non Executive Director)</i>	40,000	-	648	3,600	40,000	-	-	84,248	-
	464,358	424,525	126,913	106,780	81,000	-	-	1,203,576	
<b>Executives</b>									
M A Ward (v) <i>Chief Executive Officer</i>	243,930	30,000	31,219	20,280	-	420,691	-	746,120	4
D W Hull <i>Company Secretary</i>	167,438	-	62,677	89,400	-	-	-	319,515	-
A Syer (vi) <i>General Manager Dealer Operations</i>	87,033	135,701	40,176	36,080	-	-	121,557	420,547	32
G I Walker <i>Chief Financial Officer</i>	154,000	15,000	56,751	19,250	-	-	-	245,001	6
K T Thornton (vii) <i>General Manager Operations – Vehicles</i>	10,417	18,572	3,447	938	-	-	-	33,374	56
	662,818	199,273	194,270	165,948	-	420,691	121,557	1,764,557	

(i) Accrued but not paid until retirement.

(ii) Performance rights granted to the CEO under the Share Incentive Plan are valued using a Monte Carlo simulation which can be viewed as an extension of the Black-Scholes valuation framework. The portion of the performance rights attributable to the year ended 31 December 2005 of \$420,691, though not yet vested, has been expensed in the income statement in conformity with AASB 2. It should be noted that whilst the value of the performance rights have been expensed in the Company's financial statements and reflected in Mr Ward's remuneration, at the date of this report no shares have been issued to Mr Ward and he has not received any monetary payment in respect of them. The actual issue of shares in respect of the performance rights is subject to the achievement of the performance hurdles previously detailed in this report.

(iii) Includes benefits such as the provision of motor vehicles, insurance policy costs and the movement in the individual's provision for employee entitlements.

(iv) Retired as Managing Director on 31 December 2005.

(v) Appointed as CEO Designate on 1 July 2005 becoming CEO on 1 January 2006. Appointed as a Director on 6 March 2006.

(vi) Ceased employment on 20 June 2005.

(vii) Appointed 1 December 2005 to the executive group position of General Manager Operations – Vehicles and was employed in an operational role before that date. The above remuneration disclosures do not include remuneration received from the Group prior to 1 December 2005.



## **DIRECTORS' REPORT (continued)**

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### **Shares Under Option**

There are no shares under option.

### **Indemnification and Insurance of Officers and Auditors**

#### *Indemnification of Officers*

The Company's constitution provides that every Director Manager or officer of the Company or any person employed by the Company as auditor shall be indemnified out of the funds of the Company against all liability incurred by him as such Director Manager officer or auditor in defending any proceedings whether civil or criminal in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section 535 of the Statute in which relief is granted to him by the Court.

The constitution further provides that no Director Manager Secretary or other officer of the Company shall be liable for the acts receipts neglects or defaults of any other Director or officer or for joining in any receipt or other act for conformity or for any loss or expense happening to the Company through the insufficiency or deficiency of title to any property acquired by order of the Directors for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested or for any loss or damage arising from the bankruptcy insolvency or tortious act of any person with whom any moneys securities or effects shall be deposited or left or for any other loss damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto unless the same happen through his own negligence wilful default breach of duty or breach of trust.

#### *Insurance of Officers*

During the financial year the Company paid insurance premiums in respect of a Directors and Officers Liability insurance contract. The contract insures each person who is or has been a director or executive officer of the company against certain liabilities arising in the course of their duties to the Company and its controlled entities. The directors have not disclosed details of the nature of the liabilities covered or the amount of the premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

### **Non-Audit Services**

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and for the consolidated entity are important.

Details of the amounts paid or payable to DTT NSW (formerly Horwath Sydney Partnership), being the auditor of the consolidated entity, for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons.

- All non audit services have been reviewed by the audit committee to ensure they do not impact the partiality and objectivity of the auditor.
- None of the services undermine the general principles relating to audit independence as set out in Professional Statement F1, including reviewing or auditing the auditors own work, acting in a management or a decision making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the Auditor's Independence Declaration as required under section 307c of the Corporations Act 2001 is set out on the page following this report

## DIRECTORS' REPORT (continued)

	2006 \$	Consolidated 2005 \$
During the year the following fees were paid or payable for services provided by the auditor of the consolidated entity.		
<b>Assurance services</b>		
1. Audit services		
Audit and review of financial reports and other audit work	268,500	225,000
<b>2. Other assurance services</b>		
AIFRS and other technical advisory services	91,464	30,250
Due diligence services	5,785	16,500
	97,249	46,750
<b>Taxation services</b>		
Tax compliance services, including review of company income tax returns	23,550	11,750
<b>Advisory services</b>		
E-profit focus reviews – benchmarking and comparison of value chain / processes against best practice	37,072	26,252

### Rounding of Amounts to Nearest Thousand Dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

### Auditor

DTT NSW (formerly Horwath Sydney Partnership) continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.



**Martin A Ward**  
Director

### AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my half year review of the financial report of AP Eagers Limited for the period ended 30 June 2006 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review
- No contraventions of any applicable code of professional conduct in relation to this review

**HORWATH**  
Sydney Partnership



**David Cowper**  
Partner  
29 March 2007

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

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This statement outlines the main corporate governance practices in place which are structured around the recommendations of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (the "Recommendations").

Unless disclosed below, the Recommendations have been applied throughout the year ended 31 December 2006.

### **Principle 1. Lay solid foundations for management and oversight.**

The Company has a small and dynamic Board which has, over many years, developed and implemented policies and practices designed to promote a culture of good corporate governance. The Board's Charter is published on the Company's website [www.apegagers.com.au](http://www.apegagers.com.au).

In recognition of the need for small Boards to operate effectively the Board believes it cannot fully regulate or document the relationships between its Directors or between the Chairman and the Chief Executive Officer.

### **Principle 2. Structure the Board to add value.**

The Board currently comprises four Non-Executive Directors and one Executive Director (the Managing Director and Chief Executive Officer).

Of the four Non-Executive Directors, three are considered by the Board to be independent in terms of its adopted charter. They are Mr B W Macdonald, Mr A J Love and Mr P W Henley.

An independent Director is one who is independent of management and free of any business or other relationship that could materially interfere with the exercise of the Directors unfettered and independent judgement.

Materiality is assessed on a case-by-case basis from the perspective of both the Company and Director concerned.

The three independent Directors also meet the ASX guidelines for independence except that two of them have been in office for many years. The Board does not consider that the independence of a Director can be assessed by reference to an arbitrary or set period of time. The Company has grown considerably during the past twelve years, both in terms of new motor vehicle franchises, turnover and assets and the Board believes that all stakeholders in the Company derive benefit through the inclusion of long-serving industry knowledgeable Directors.

The Chairman of the Company is an independent Non-Executive Director. The roles of Chairman and Chief Executive Officer are exercised by separate individuals.

As the Board is relatively small and stable the Board as a whole acts as a nomination committee. Should a vacancy occur the Board identifies candidates with appropriate levels of experience, knowledge and a disposition that enables them to offer and resolve differing views and to ask discerning questions.

Each Director has the right to seek independent professional advice at the consolidated entity's expense. However, prior approval of the Chairman is required which would not be unreasonably withheld.

### **Information on Directors**

The Directors in office during the financial year are listed below with a brief description of their qualifications, experience and relevant interest in ordinary shares in the Company at the date of the Directors' Report.

**B W Macdonald** Chairman of the Board and a member of the Audit Committee.

Independent Non-Executive Director, appointed January 1992. Company Director. Chairman of FKP Ltd and Reef Corporate Services Ltd.

Mr Macdonald has a relevant interest in 84,375 ordinary shares of A.P. Eagers Limited.

**N G Politis B.Com** Director.

Non-Executive Director, appointed May 2000. Motor Vehicle Dealer. Executive Chairman of WFM Motors Pty Ltd and a substantial number of other proprietary limited companies.

Mr Politis has a relevant interest in 11,008,485 ordinary shares of A.P. Eagers Limited.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES (continued)

**A J Love B.Com, A.A.U.Q., F.A.P.I.** Director and Chairman of the Audit Committee.

Independent Non-Executive Director, appointed March 1994. Real Estate Agent. Managing Director of McGee Isles Love Pty Ltd. Director of Campbell Brothers Limited and Bank of Queensland Limited.

Mr Love has a relevant interest in 34,211 ordinary shares of A.P. Eagers Limited.

**P W Henley** Director and a member of the Audit Committee.

Non – Executive Director, appointed December 2006. Company Director.

Mr Henley has a relevant interest in 2,530 shares of A.P. Eagers Limited

**M A Ward BSc (Hons), FAICD.** Managing Director and Chief Executive Officer

Executive Director, appointed 6 March 2006. Motor Vehicle Dealer.

Mr Ward has a relevant interest in 25,773 ordinary shares of A.P. Eagers Limited and has rights under the share incentive plan referred to in the remuneration report.

Directors are not appointed for specific terms. Their continuation in office is dependent on effective contribution as assessed by the Board on a regular basis.

### **Principle 3. Promote ethical and responsible decision making.**

Whilst the Company does not have a formal code of conduct, it has established practices and policies that promote and encourage ethical and responsible decision making and which foster a sound "Culture of Compliance". These practices and policies are incorporated into an "Employee Information and Policy Manual" which is provided to all employees and Directors.

Where considered necessary training programs on issues such as Workplace Health and Safety, Fair Trading, Environmental Law compliance, Trade Practices Act and Industrial Relations requirements are held.

#### Securities Trading and Trading Windows.

The Company's policy on trading in its securities is covered under three specific headings.

##### 1. Share Dealings.

###### a. Restriction applicable to all employees

No Director or employee may buy or sell A.P. Eagers shares (or hint, suggest, ask or tell anyone else to do so) at any time when they are aware of information which would be likely to affect the share price if it were made public. This restriction also applies to other Companies shares where information is learned as a result of a person's position in A.P. Eagers.

###### b. Additional restrictions applicable to those with regular access to sensitive information

Directors of A.P. Eagers Limited, executive general managers, the Company Secretary, the Chief Financial Officer, employees having access to the monthly management reports (including employees in corporate head office involved in the preparation of those reports) and any other employees or group of employees nominated by the Managing Director, may only purchase or sell A.P. Eagers shares during the following "windows":

- The period of one month following the announcement of half yearly results;
- The period of one month following the announcement of the annual results; and
- The period of one month following the Annual General Meeting (assuming that an update of the Company's performance is given at the meeting)

And may only do so at those times if not prohibited by the general restriction in paragraph (a).

Trading in A.P. Eagers shares by Directors, senior executives and employees as nominated at times other than those set out in clause 1(b) above is prohibited except that a person may trade outside the allowable period under certain conditions with written authority as follows:

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES (continued)

- Chairman – from another Non-Executive Director
  - Chief Executive and Directors – from the Chairman or in his absence a Non-Executive Director nominated by the Chairman.
  - All other nominated executives and employees – from the Chief Executive or in his absence a senior executive nominated by the Chief Executive.
2. Passing on sensitive information
- No one may “pass on” sensitive information about the Company.
3. Improper use of position or confidential information
- No one may improperly use their position with the Company or information obtained by virtue of their position for personal gain or to damage the Company.

### Principle 4. Safeguard integrity in financial reporting.

#### Certification of the Financial Reports:

The Chief Executive Officer (CEO), the Company Secretary and the Chief Financial Officer (CFO) are required to state in writing to the Board that the Consolidated Entity's financial reports present a true and fair view, in all material respects, of the Consolidated Entity's financial condition and operational results and that they are in accordance with relevant accounting standards.

The statements by the CEO, Company Secretary and CFO are based on the completion of standard year end accounting practices and a review of the financial reports by the Audit Committee.

#### Audit Committee:

The Company has an established Audit Committee comprising three Non-Executive Directors, all of whom are considered to be independent. Members of the Committee are Messrs A.J. Love (Committee Chairman), B.W. Macdonald and P.W. Henley. Their qualifications and experience are disclosed under Principle 1 and their committee attendance details are disclosed in the Directors' Report. The Committee Chairman is not also the Chairman of the Board.

The Managing Director, Company Secretary, Chief Financial Officer, Group Accountant, Internal Auditor and the external auditor may also attend committee meetings at the invitation of the committee.

The minutes of each committee meeting are reviewed at the subsequent meeting of the Board and the chairman of the committee reports on the committee's conclusions and recommendations.

The committee has a formal charter. Unless dealt with by the Board, its role and responsibilities are to:

- a) Recommend to the Board the appointment of the external auditor
- b) Review and / or evaluate:
  - The audit plan of the external auditor;
  - The performance of the external auditor;
  - The provision of non-audit services by the external auditor, including the quantum of fees and the types of activities performed;
  - The effectiveness of the internal review processes;
  - The management letters from the external auditor and management's responses;
  - The adequacy and effectiveness of the reporting and accounting controls of the consolidated entity;
  - The financial reports to be made to shareholders and / or the public prior to their release;
  - The reports from management or the external auditor concerning any significant regulatory, accounting or reporting development to assess potential financial reporting issues;
- c) approve and recommend acceptance to the Board of:
  - All significant accounting policy changes;
  - The consolidated entity's taxation position; and
  - Half-yearly and annual financial statements.

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES (continued)

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- d) Determine that no restrictions are being placed upon either the internal review processes or the external auditor;
- e) Monitor the standard of corporate conduct in areas such as arms-length dealings and likely conflicts of interest;
- f) Direct any special projects or investigations deemed necessary by the Board; and
- g) Perform other duties as directed by the Board, from time to time.

### **Principle 5. Make timely and balanced disclosure.**

In accordance with ASX Listing Rules the Company discloses any information that a reasonable person would expect to have a material effect on the value of its shares.

The Company Secretary is the nominated continuous disclosure officer and the matter of continuous disclosure is addressed at each Board meeting. All announcements made to the ASX by the Company are published on the Company's website.

### **Principle 6. Respect the rights of shareholders**

Whilst the Company does not have a formal communications strategy in place, it keeps its shareholders fully informed of matters likely to be of interest to them through:

- Reports to the ASX and the press.
- Half yearly and full year profit announcements.
- Annual Reports
- The Chairman's address to the AGM.
- Placing the above reports and announcements on the Company's website.

At the Annual General Meeting the Chairman encourages questions and comment from shareholders. In the interest of clarity, questions on operational or accounting / financial issues may be answered by the Managing Director or Company Secretary or another appropriate member of senior management.

The external auditor attends the Company's Annual General Meeting and is available to respond to questions about the conduct of the audit and the preparation and content of the independent Audit Report.

### **Principle 7. Recognise and manage risk.**

The Board as a whole is responsible for overseeing the risk management function. The Company places a high priority on the identification of risk and also opportunities throughout the Group's operations. To manage these risks and opportunities the Board receives a written compliance report at each Board meeting, reports from the Audit Committee Chairman after each committee meeting and considers strategic risk and opportunity on an ongoing basis. The Company has an established internal audit control function that operates independently from the external auditor but in consultation with them. The effectiveness of these controls is assessed on an ongoing basis.

#### Risk Profile

Major risks may arise from the actions of competitors, interest rate fluctuation, foreign currency exchange rate movements, government policy changes, environment, occupational health and safety, property, financial reporting and the use of information technology.

#### Certification of risk management controls

In conjunction with the certification of financial reports, the Managing Director, Company Secretary and Chief Financial Officer state in writing to the Board that:

- The statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.



## STATEMENT OF CORPORATE GOVERNANCE PRACTICES (continued)

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### **Principle 8. Encourage enhanced performance**

Whilst no formal evaluation procedures exist the performance of individual Directors and senior executives is examined on an ongoing basis. There has been no formal performance evaluation of the Board, individual members of the Board or of the Audit Committee undertaken during the reporting period.

New Board appointees will be provided with an appropriate induction program designed to meet ASX recommendations.

Each Director has the right to seek independent professional advice at the consolidated entity's expense. However, prior approval from the Chairman is required which would not be unreasonably withheld.

All Directors have access to the Company Secretary who attends all Board meetings. He is accountable to the Board on all governance matters.

### **Principle 9. Remunerate fairly and responsibly**

The Company does not have a formal remuneration committee.

The Board as a whole is responsible for recommending and reviewing remuneration arrangements for the Non-Executive Directors. Non-Executive Directors are remunerated for their services by way of fees (and where applicable, superannuation) from the maximum amount approved by shareholders in general meeting for that purpose. Directors' fees are currently \$45,000 per annum for those directors in office prior to 1 January 2006 and \$60,000 per annum for those appointed after 1 January 2006. The Chairman receives \$80,000 per annum. These fees are set after considering relevant market conditions and after taking into account the Non-Executives expectations that they will receive an allowance on their retirement from office paid under a shareholder approved retirement program. Under that program retiring Non-Executive Directors who have served for a period of not less than five years, may, at the discretion of the Directors, receive a retiring allowance. The allowance cannot exceed the total Director's fees paid to the Director by the Company during the period of three years immediately preceding retirement, resignation or death. Effective 1 January 2006 new Board appointees will not be eligible for participation in the retirement program.

Non-Executive Directors do not participate in any schemes designed for the remuneration of executives nor do they participate in any equity schemes. For details on the breakdown of Directors' remuneration refer to the Remuneration Report.

Executives of the Company, inclusive of the Managing Director / CEO, are those who are directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity.

The full Board of Directors (excluding the Managing Director) sets the level of remuneration of the Managing Director. In consultation with the Managing Director, the Board sets the remuneration level of the consolidated entity's senior executives with due regard to performance and comparative market information.

Executives directly involved in the operational side of the business are remunerated by way of a base salary plus a commission linked to the profitability of the Company whilst other executives receive a base salary commensurate with relevant employment market conditions. Executive officers may also be paid a bonus linked to performance and the achievement of specified criteria. Details of the nature and amount of each element of the remuneration of executive Directors and each of the executive officers remuneration for the financial year are disclosed in the Remuneration Report.

### **Principle 10. Recognise the legitimate interests of stakeholders**

The Company is in the process of drawing up a formal Code of Conduct that will draw together all of the Company's policies and procedures that collectively promote a culture of compliance with legal and ethical standard and recognise the Company's obligations to its legitimate stakeholders. When adopted the code of conduct will be posted on the Company's website.

## A.P. EAGERS LIMITED

### INDEPENDENT AUDIT REPORT TO THE MEMBERS OF A. P. EAGERS LIMITED

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#### Scope

##### *The financial report, compensation disclosures and directors' responsibility*

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both **A. P. Eagers Limited** (the company) and the consolidated entity, for the financial year ended **31 December 2006**. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "Details of Remuneration" of the remuneration report in the directors' report, and not in the financial report. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the *Corporations Regulations 2001*.

##### *Audit approach*

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the *Corporations Act 2001* so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations, their changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the compensation disclosures in the directors' report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

##### *Auditor's Independence Declaration*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## A.P. EAGERS LIMITED

### INDEPENDENT AUDIT REPORT TO THE MEMBERS OF A. P. EAGERS LIMITED (continued)

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#### Audit Opinion

In our opinion:

- (1) the financial report of A. P. Eagers Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (2) the compensation disclosures that are contained under the heading "Details of Remuneration" of the remuneration report in the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

DTT NSW



**David Cowper**  
Partner  
Chartered Accountants

Sydney, Dated 29th day of March 2007

## A.P. EAGERS LIMITED

### DIRECTORS' DECLARATION

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The directors declare that :

- (a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and
- (c) the directors have been given the declarations required by s.295A of the Corporations Act 2001

At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in Note 32(b) to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



M A Ward  
Director

29 March 2007

**A.P. EAGERS LIMITED**
**INCOME STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	3	<b>1,174,336</b>	1,071,955	<b>15,000</b>	27,062
Other income	4	<b>15,012</b>	2,794	-	-
Changes in inventories of finished goods and work in progress		<b>10,037</b>	24,780	-	-
Raw materials and consumables used		<b>(1,017,878)</b>	(953,874)	-	-
Employee benefits expense		<b>(75,747)</b>	(61,649)	-	-
Finance costs	5	<b>(13,748)</b>	(11,884)	-	-
Depreciation and amortisation expense	5	<b>(5,743)</b>	(5,133)	-	-
Other expenses		<b>(50,378)</b>	(44,063)	-	(4,338)
Share of net (loss)/profits of associates accounted for using the equity method	43(c)	<b>922</b>	(3,794)	-	-
<b>Profit before income tax</b>		<b>36,813</b>	19,132	<b>15,000</b>	22,724
Income tax (expense)/benefit	6	<b>(11,026)</b>	(5,834)	-	1,301
<b>Profit for the year attributable to members of A.P. Eagers Limited</b>	28(b)	<b>25,787</b>	13,298	<b>15,000</b>	24,025
		<b>Cents</b>	<b>Cents</b>		
<b>Earnings per share:</b>					
Basic earnings per share	40	<b>110.5</b>	61.0		
Diluted earnings per share	40	<b>108.2</b>	59.6		

*The above Income Statements are to be read in conjunction with the accompanying notes.*

**A.P. EAGERS LIMITED**
**BALANCE SHEETS  
AS AT 31 DECEMBER 2006**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Current Assets</b>					
Cash and cash equivalents	8	54,864	4,494	-	-
Trade and other receivables	9	42,886	46,471	-	-
Inventories	10	161,776	152,925	-	-
Other current assets	11	3,751	1,498	-	-
<b>Total Current Assets</b>		<b>263,277</b>	<b>205,388</b>	<b>-</b>	<b>-</b>
<b>Non-Current Assets</b>					
Receivables	12	-	-	104,993	64,357
Investments accounted for using the equity method	13(a)	1,706	-	-	-
Available-for-sale financial assets	13(b)	113	6,673	91	-
Derivative financial instruments	14	863	-	-	-
Other financial assets	13(c)	-	-	34,244	34,244
Property, plant and equipment	15	240,965	187,886	-	-
Deferred tax assets	16	-	-	-	1,390
Intangible assets	17	26,403	23,131	-	-
<b>Total Non-Current Assets</b>		<b>270,050</b>	<b>217,690</b>	<b>139,328</b>	<b>99,991</b>
<b>Total Assets</b>		<b>533,327</b>	<b>423,078</b>	<b>139,328</b>	<b>99,991</b>
<b>Current Liabilities</b>					
Trade and other payables	18	32,985	28,122	-	-
Borrowings	19	122,738	126,278	-	-
Current tax liabilities	20	4,910	1,884	4,910	1,884
Provisions	21	5,396	4,367	-	-
<b>Total Current Liabilities</b>		<b>166,029</b>	<b>160,651</b>	<b>4,910</b>	<b>1,884</b>
<b>Non-Current Liabilities</b>					
Borrowings	23	104,600	91,600	-	-
Deferred tax liabilities	24	20,249	6,631	722	722
Provisions	25	2,521	2,707	-	-
Other	22	450	450	-	-
<b>Total Non-Current Liabilities</b>		<b>127,820</b>	<b>101,388</b>	<b>722</b>	<b>722</b>
<b>Total Liabilities</b>		<b>293,849</b>	<b>262,039</b>	<b>5,632</b>	<b>2,606</b>
<b>Net Assets</b>		<b>239,478</b>	<b>161,039</b>	<b>133,696</b>	<b>97,385</b>
<b>Equity</b>					
Contributed equity	27(a)	106,264	77,311	106,264	77,311
Reserves	28(a)	89,913	47,674	3,180	2,103
Retained earnings	28(b)	43,301	36,054	24,252	17,971
<b>Total Equity</b>		<b>239,478</b>	<b>161,039</b>	<b>133,696</b>	<b>97,385</b>

The above Balance Sheets are to be read in conjunction with the accompanying notes.



**A.P. EAGERS LIMITED**
**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	<b>CONSOLIDATED</b>		<b>PARENT ENTITY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Total equity at the beginning of the financial year</b>	<b>161,039</b>	150,032	<b>97,385</b>	76,277
Gain on revaluation of land and buildings, net of tax	<b>34,039</b>	-	-	-
Changes in the fair value of available-for-sale financial assets, net of tax	-	626	-	-
Reversal of available-for-sale financial asset reserve (Note 28(a))	<b>(3,539)</b>	-	-	-
Changes in the fair value of cashflow hedge, net of tax	<b>604</b>	-	-	-
Reduction in tax payable on sale of revalued properties	<b>237</b>	-	-	-
<b>Net income recognised directly in equity</b>	<b>31,341</b>	626	-	-
<b>Profit for the year</b>	<b>25,787</b>	13,298	<b>15,000</b>	24,025
<b>Total recognised income and expense for the year</b>	<b>57,128</b>	13,924	<b>15,000</b>	24,025
Employee share expense credited to reserve (note 28 (a))	<b>1,077</b>	420	<b>1,077</b>	420
Transactions with equity holders in their capacity as equity holders:				
Contribution of equity, net of transaction costs	<b>28,953</b>	4,685	<b>28,953</b>	4,685
Dividends paid (note 7)	<b>(8,719)</b>	(8,022)	<b>(8,719)</b>	(8,022)
	<b>21,311</b>	(2,917)	<b>21,311</b>	(2,917)
<b>Total equity at the end of the year</b>	<b>239,478</b>	161,039	<b>133,696</b>	97,385

*The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.*

**A.P. EAGERS LIMITED**
**CASH FLOWS STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2006**

	Notes	CONSOLIDATED		PARENT ENTITY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of goods and services tax)		1,286,279	1,174,909	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(1,250,349)	(1,140,423)	-	-
Cash generated from operations		35,930	34,486	-	-
Receipt from insurance claim		2,297	-	-	-
Dividends received		849	785	-	-
Interest received		748	226	-	-
Interest and other finance costs paid		(13,810)	(11,809)	-	-
Income taxes paid		(7,179)	(6,280)	-	-
<b>Net cash inflow from operating activities</b>	41	<b>18,835</b>	<b>17,408</b>	-	-
<b>Cash flows from investing activities</b>					
Payments for available-for-sale financial assets		(91)	(1,172)	-	-
Payment for acquisition of businesses	31 (a)	(17,140)	(13,184)	-	-
Payments for property, plant and equipment		(28,220)	(24,624)	-	-
Proceeds from sale of property, plant and equipment		44,864	12,581	-	-
<b>Net cash outflow from investing activities</b>		<b>(587)</b>	<b>(26,399)</b>	-	-
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares, net of transaction costs		25,569	-	-	-
Proceeds from borrowings		13,000	22,000	-	-
Repayment of borrowings		-	(3,000)	-	-
Dividends paid	7	(6,447)	(3,337)	-	-
<b>Net cash inflow from financing activities</b>		<b>32,122</b>	<b>15,663</b>	-	-
<b>Net increase in cash held</b>		<b>50,370</b>	<b>6,672</b>	-	-
Cash at the beginning of the financial year		4,494	(2,178)	-	-
<b>Cash at the end of the financial year</b>	8	<b>54,864</b>	<b>4,494</b>	-	-

*The above Cash Flow Statements should be read in conjunction with the accompanying notes.*

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act 2001.

##### *Compliance with IFRS*

The financial report complies with Australian Accounting Standards, which include AIFRS. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS), with the exception of certain of the disclosures contained in AASB 132: Financial Instruments - Presentation and Disclosure for the parent entity.

##### *Adoption of new and revised Accounting Standards*

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoptions of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- investments classified as at fair value through profit or loss (AASB 2005-04 'Amendments to Australian Accounting Standards'); and
- financial guarantee contracts (AASB 2005-09 'Amendments to Australian Accounting Standards').

The impact of these changes in accounting policies is discussed in detail later in this note.  
The impact on basic and diluted earnings per share is not material.

At the date of authorisation of the financial report, the following Standards and Interpretations were in issue but not yet effective:

- |   |  |
|---|--|
| - AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue | Effective for annual reporting periods beginning on or after 1 January 2007  |
| - AASB 101 'Presentation of Financial Statements' - revised standard  | Effective for annual reporting periods beginning on or after 1 January 2007  |
| - Interpretation 10 'Interim Financial Reporting and Impairment'  | Effective for annual reporting periods beginning on or after 1 November 2006 |
| - AASB 8 'Operating Segments'   | Effective for annual reporting periods beginning on or after 1 January 2009  |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the company or the Group. The circumstances addressed by Interpretation 10, which prohibits the reversal of certain impairment losses, do not affect either the company's or the Group's previously reported results and accordingly, there will be no impact to these financial statements on adoption of the Interpretation.

The application of AASB 101 (revised), AASB 7 and AASB 2005-10 will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the company's and the Group's financial instruments and the objectives, policies and processes for managing capital.

These Standards and Interpretations will be first applied in the financial report of the Group that relates to the annual reporting period beginning after the effective date of each pronouncement, which will be the company's annual reporting period beginning on 1 January 2007.

##### *Limitation of ability to designate financial assets and financial liabilities through profit or loss*

The Australian Accounting Standards Board ('AASB') released AASB 2005-4 'Amendments to Australian Accounting Standards' in June 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' by limiting the ability of entities to designate any financial asset or financial liability as 'at fair value through profit or loss'.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets that can no longer be designated as at 'fair value through profit or loss' are now classified into either loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate, and measured at amortised cost or at fair value with changes in fair value recognised in equity, according to their classification. Financial liabilities that can no longer be designated as 'at fair value through profit or loss' are classified as 'other' financial liabilities and measured at amortised cost. Although ordinarily the designation of a financial asset as available-for-sale is made on initial recognition, the transitional provisions of the Standard allow such designation to be made on the date of de-designation (1 January 2005).

The changes introduced by AASB 2005-4 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 January 2005). The amendments are made in accordance with the transitional provisions of AASB 2005-4 and results in listed shares held by the Group with a carrying value at 1 January 2005 (the date of de-designation) of \$4,589,000 (company: \$nil) that were previously designated as 'at fair value through profit or loss' being reclassified as available-for-sale investments. Fair value movements post 1 January 2005 are recognised directly in the investments revaluation reserve in accordance with note 1(m).

The impact of this reclassification is that, in the Group's financial statements, profit for the year ended 31st December 2005 decreased by \$626,000 (net of tax) (company: \$nil) and gains recognised in the investments revaluation reserve for the year ended 31 December 2005 increased by \$626,000 (net of tax) (company: \$nil) from that which was reported in the annual financial report for that comparative year.

#### *Accounting for financial guarantee contracts*

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 1(d).

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 January 2005). The Group is a party to a financial guarantee contract where an entity in the Group has provided a financial guarantee to a bank in respect of an entity external to the A.P. Eagers Limited group. A.P. Eagers Limited (the company) is also party to a deed of cross guarantee with other entities in the group. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees, to each creditor, payment in full of any debt in accordance with the deed of cross guarantee.

The application of these amendments results in such financial guarantee contracts now being recognised and measured at the higher of the best estimate of the expenditure required to settle the obligation and the amount initially recognised less, where appropriate, cumulative amortisation.

No material adjustment was required in the separate financial statements of the company to recognise the financial guarantee liability associated with its exposure under the deed of cross guarantee.

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets to fair value, derivatives and certain classes of property, plant and equipment.

#### *Functional and Presentation Currency*

The functional and presentation currency of both the parent entity and the Group is the Australian Dollar.

#### **(b) Principles of consolidation**

##### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of A.P. Eagers Limited (the 'company' or 'parent entity') as at 31 December 2006 and the results of all subsidiaries for the year then ended. A.P. Eagers Limited and its subsidiaries together are referred to in this financial report as the 'Group' or the 'consolidated entity'.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### *(ii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### **(c) Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

##### **(d) Revenue**

###### *(i) Sales revenue*

Revenue from the sales of motor vehicles and parts is recognised when the buyer has accepted the risks and rewards of ownership by taking delivery of the goods.

###### *(ii) Service revenue*

Service work on customers' motor vehicles is carried out under instructions from the customer. Service revenue is recognised based upon the percentage completion of the work requested. The percentage completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours for the service to be performed. Revenue arising from the sale of parts fitted to customers' vehicles during service is recognised upon delivery of the fitted parts to the customer upon completion of the service.

###### *(iii) Rental income*

Rental income from operating leases is recognised in income on a straight-line basis over the lease term.

###### *(iv) Interest revenue*

Interest revenue is recognised on a time proportional basis, taking into account the effective interest rates applicable to the financial assets.

###### *(v) Dividend revenue*

Dividend revenue is recognised when the right to receive a dividend has been established.

Dividends received from associates are accounted for in accordance with the equity method of accounting in the consolidated financial statements.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (vi) Goods and Services Tax (GST)

All revenue is stated net of the amount of Goods and Services Tax (GST).

##### (e) Finance costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts, short and long-term borrowings
- interest on new vehicle bailment arrangements
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings

##### (f) Taxes

###### (i) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the current income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on current tax rates. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

###### (ii) Tax consolidation legislation

A.P. Eagers Limited and its wholly-owned subsidiaries implemented the tax consolidation legislation as of 1 January 2003. A.P. Eagers Limited, as the head entity in the tax consolidated group, recognises current tax amounts and deferred tax originating from available tax losses of subsidiaries, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing and a tax funding agreement with the tax consolidated entities are recognised as intercompany balances.

###### (iii) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statements on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

##### (g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.



**A.P. EAGERS LIMITED****NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
31 DECEMBER 2006 (continued)**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Business Combinations**

The purchase method of accounting is used for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets acquired, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(q)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(i) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and these cash flows are discounted using the weighted average cost of capital. An impairment loss is recognised in the profit and loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease (refer Note 1(p)). Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the profit and loss immediately, unless the relevant asset is carried at fair value, in which case, the reversal of the impairment loss is treated as a revaluation increase (refer Note 1(p)).

**(j) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(k) Receivables***Trade receivables*

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collectability exists. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

**(l) Inventories**

New motor vehicles are stated at the lower of cost and net realisable value. Demonstrator vehicles are written down to net realisable value. Costs are assigned on the basis of specific identification.

Used motor vehicles are stated at the lower of cost and net realisable value on a unit by unit basis. Net realisable value has been determined by reference to the likely net realisable value given the age of the vehicles at year end. Costs are assigned on the basis of specific identification.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Spare parts and accessories are stated at the lower of cost and net realisable value. Costs are assigned to individual items on the basis of weighted average cost.

Work in progress is stated at cost. Cost includes labour incurred to date and consumables utilised during the service. Costs are assigned to individual customers on the basis of specific identification.

##### **(m) Investments and other financial assets**

The group classifies its investments or other financial assets in the following categories: (i) available-for-sale financial assets and (ii) loans and receivables. The classification depends on the purpose for which the investments or other financial assets were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

##### *(i) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance date.

Purchases and sales of investments are recognised on the trade-date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from the sale or impairment of investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and pricing models to reflect the issuer's specific circumstances.

The Group assesses at each balance whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement.

##### *(ii) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 9 and 12)

##### **(n) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is determined based on market expectations of future interest rates.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

##### (o) Derivatives

Derivatives are recognised at their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designed as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of exposure to variability in cash flows, which includes hedges for highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items. Refer further details in Note 14.

##### (i) Cash flow hedge

The change in the fair value from remeasuring derivatives that are designated and qualify as cash flow hedges is deferred in equity as a hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedge interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

##### (p) Property, plant and equipment

Land and buildings are shown at fair value, based on annual assessment by the directors supported by periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to property, plant and equipment revaluation reserve in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit and loss. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the income statement.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Buildings	40 years
- Plant & equipment	3 - 10 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in the asset revaluation reserve in respect of those assets to retained earnings.

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement, whichever is the shorter.

The make good provision is capitalised as leasehold improvements and amortised over the term of the lease.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (q) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. Goodwill on acquisition of subsidiaries and businesses is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. (refer note 17(a))

##### (r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at the fair value of what is expected to be paid, and subsequently at amortised cost.

##### (s) Borrowings

Borrowings are initially recognised at fair value net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

##### (t) New motor vehicle stock and related bailment

Motor vehicles secured under bailment plans are provided to the Group under bailment agreements between the floor plan loan providers and entities within the Group. The Group obtains title to the vehicles immediately prior to sale. Motor vehicles financed under bailment plans held by the Group are recognised as trading stock with the corresponding liability shown as owing to the finance provider.

##### (u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate taking into account the risks and uncertainties surrounding the obligation.

##### *Provision for Warranties*

Provision is made for the estimated claims in respect of extended warranties provided on the majority of the Group's retail used vehicle sales. These claims are expected to settle in the next financial year but some may be extended into the following year if claims are made late in the warranty period.

##### (v) Employee benefits

###### *(i) Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

###### *(ii) Long service leave*

The liability for long service leave expected to be settled within 12 months from the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are measured at the present value of the estimated cash outflow.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (iii) *Share based payments*

The Group provides benefits to selected employees in the form of a Share Incentive Plan. The relevant employees are deemed to provide services to the Group in exchange for shares. The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date that they are granted. The fair value is determined using an option pricing model (see Note 2(iv) for details of the calculation). In valuing the performance rights, no account has been taken of the non-market performance conditions, these are assessed at each reporting date to determine the number of performance rights expected to vest, and the necessary adjustments made. The fair value of the share based payment is recognised over the relevant vesting period as an expense, with a corresponding increase in equity.

##### *Performance rights granted after 7 November 2002 and vested after 1 January 2005*

The fair value of performance rights granted under the Share Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the chief executive officer becomes unconditionally entitled to the performance rights.

The fair value at grant date is independently determined using a Black-Scholes pricing model that takes into account the term of the performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performance rights, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights.

The fair value of the performance rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. At each balance date, the entity revises its estimate of the number of rights that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the vesting of performance rights, the balance of the share-based payments reserve relating to those rights is transferred to the vested performance rights reserve. note 28(a))

##### (w) *Dividends*

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

##### (x) *Earnings per share*

###### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

###### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

##### (y) *Change in Accounting Policy*

The first time adoption of the revised AASB 139: "Financial Investments - Recognition and Measurement" which, effective for accounting periods on or after 1 January 2006, has limited the use of the category of financial assets "Held at fair value through profit or loss". The requirements for using the classification of financial assets "held at fair value through profit or loss" under the revised standard are not met resulting in a change in accounting policy in the current year. This resulted in the reclassification of financial assets held at "fair value through profit or loss" to "Available-for-sale financial assets". The impact of this reclassification is the reversal of the accounting treatment adopted in 2005 resulting in the reclassification of \$2,913,000 (net of tax) from retained profits at 1 January 2005 to the "Available-for-sale Investment Revaluation Reserve" and \$626,000 (net of tax) from net profit in 2005 to the "Available-for-sale Revaluation reserve".

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	CONSOLIDATED 2005 \$'000
<i>(i) Prior Year Net Profit Attributable to Members</i>	
Net profit as previously reported	13,924
Transfer to Available-for-sale Investment Revaluation Reserve on adoption of revised AASB 139 : Financial Instruments - Recognition and Measurement	(626)
Restated net profit	<u>13,298</u>
<i>(ii) Prior Year Retained Profits</i>	
Retained profits at the beginning of the financial year as previously reported	33,347
Transfer to Available - for - sale Investment Revaluation Reserve on adoption of revised AASB 139: Financial Investments - Recognition and Measurement	<u>(2,913)</u>
Restated retained profits at the beginning of the financial year	30,434
Net profit attributable to members (see (i) above)	13,298
Net transfers from/(to) reserves	344
Dividends paid or payable	<u>(8,022)</u>
Restated retained profits at the end of the financial year	<u>36,054</u>
<i>(iii) Prior Year Available-for- Sale Investment Revaluation Reserves</i>	
Reserves at the beginning of the financial period as previously reported	-
Transfer to Available-for-sale Investment Revaluation Reserve on adoption of revised AASB 139 : Financial Instruments - Recognition and Measurement	<u>2,913</u>
Restated reserves at the beginning of the financial period	2,913
Transfer to Available-for-sale Investment Revaluation Reserve on adoption of revised AASB 139 : Financial Instruments - Recognition and Measurement	<u>626</u>
Reserves at the end of the financial period	<u>3,539</u>

#### **(z) Rounding of Amounts**

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

#### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

##### **(a) Critical accounting estimates and assumptions**

Estimates and the judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

##### (i) Estimated impairment of goodwill

Goodwill with a carrying value of \$26,403,000 (2005: \$23,131,000) is tested annually for impairment, based on estimates made by the directors. The recoverable amount of the goodwill is based on 'Fair value less costs to sell' which is estimated annually by the directors based on their knowledge of the industry and recent market transactions. The directors consider that the recent market transactions on which they base their valuation of the recoverable amounts are indicative of the recoverable amount of each cash generating unit to which the goodwill has been allocated. Further information on the goodwill impairment test can be found in note 17(a).

##### (ii) Fair value estimation of land and buildings

Land and buildings with a carrying value of \$212,943,000 (2005: \$162,472,000) are carried at valuation. This fair value is determined by an independent qualified valuer at least every three years with an informal market assessment being received in the intervening years to support that the current carrying value approximates the fair value.

##### (iii) Provisions for warranties

A provision for warranties of \$1,112,000 (2005: \$1,062,000) has been recognised for extended warranties provided for the Group's retail new and used vehicle sales. This provision has been estimated based on past experience and confirmation of future costs by the administrator of the warranty programme.

##### (iv) Share based payments

The Group operates a 'Performance Rights' compensation scheme for its Chief Executive Officer. The fair value of these performance rights is calculated on grant date, and recognised over the period to vesting. The fair value has been calculated using an option pricing model and is based on numerous variables, many of which are estimated. Included in these estimations are the following:

- Share price growth, reinvestment of dividends and adjustment for capital changes over the period. These have been estimated based on a basket of similar peer group companies.
- Volatility. This has been based on historical experience that is commensurate with the expected life of the performance rights, and weekly observations of historical volatility. The volatility has been estimated at 20%.
- Expected life has been estimated between grant date and vesting date for each tranche, and ranges between 1.5 years and 5.4 years.
- Risk free interest rate has been derived as the implied yield on a zero coupon Australian government bond with a life similar to the performance right, expressed as a continually compounded rate. The risk free rate has been estimated between 5.08% and 5.02% (varies between tranches).
- Dividend yield is based on the dividend expected for the Group's shares, expressed as a continually compounded percentage of the future share price, and has been estimated at 4.88%.

The fair value of the performance rights has been estimated as \$2,309,000 (2005 - \$2,309,000) in total, with a cumulative expense being recognised at 31 December 2006 of \$1,262,074 (2005 - \$420,691). At this stage it is expected that all of the performance rights will vest.

##### (v) Estimation of make good provisions

An amount of \$1,500,000 has been estimated in respect of a leased property for any expenditure incurred to restore the property back to its original state. The lease has approximately 15 years to run at balance date, and a bank guarantee has been given for the \$1,500,000 recognised. In terms of the lease, this amount will be indexed and will increase in the future, therefore it is the maximum estimate of what would be payable today.

#### (b) Critical Judgements

There were no critical judgements in applying the Group's accounting policies during the current financial year.



## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 3. REVENUE

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Sales revenue</b>				
Sale of goods	1,114,438	1,019,264	-	-
Services	55,805	51,200	-	-
	<b>1,170,243</b>	<b>1,070,464</b>	<b>-</b>	<b>-</b>
<b>Other revenue</b>				
Rents	733	323	-	-
Interest	927	251	-	-
Dividends	1	723	15,000	27,062
Proceeds of insurance claim for hail damage	2,297	-	-	-
Other	135	194	-	-
	<b>4,093</b>	<b>1,491</b>	<b>15,000</b>	<b>27,062</b>
Total revenue	<b>1,174,336</b>	<b>1,071,955</b>	<b>15,000</b>	<b>27,062</b>

#### 4. OTHER INCOME

Gain on disposal of property, plant and equipment	15,012	2,794	-	-
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#### 5. EXPENSES

Profit before income tax includes the following specific expenses:

Depreciation				
Buildings	1,968	1,610	-	-
Plant and equipment	3,370	3,173	-	-
Total depreciation	<b>5,338</b>	<b>4,783</b>	<b>-</b>	<b>-</b>
Amortisation				
Leasehold improvements	405	350	-	-
Total amortisation	<b>405</b>	<b>350</b>	<b>-</b>	<b>-</b>
Total Depreciation and Amortisation	<b>5,743</b>	<b>5,133</b>		
Finance costs				
Interest and finance charges - paid/payable				
New vehicle bailment	6,990	6,331	-	-
Other	6,758	5,553	-	-
Total finance expense	<b>13,748</b>	<b>11,884</b>	<b>-</b>	<b>-</b>
Rental expense relating to operating leases				
Minimum lease payments	4,280	2,572	-	-
Total rental expense relating to operating leases	<b>4,280</b>	<b>2,572</b>	<b>-</b>	<b>-</b>
Impairment of available-for-sale financial assets (note 13 (c) (i))	-	-	-	4,338
Contributions to superannuation funds	4,777	4,256	-	-
Write down of inventories to net realisable value	559	665	-	-
Share-based payments				
Equity-settled share-based payments	2,189	421	-	-



# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 6. INCOME TAX

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>(a) Income tax expense( benefit)</b>				
Current income tax expense	10,498	5,958	-	-
Deferred income tax expense/(benefit)	821	(213)	-	(1,301)
Under (over) provision in prior years	(293)	89	-	-
	<u>11,026</u>	<u>5,834</u>	<u>-</u>	<u>(1,301)</u>
Deferred income tax expense/(benefits) included in income tax expense comprises:				
(Increase) decrease in deferred tax assets	-	-	-	(1,301)
Increase (decrease) in deferred tax liabilities	821	(213)	-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Profit before income tax expense	36,813	19,132	15,000	22,724
Income tax calculated at 30% (2005 - 30%)	11,044	5,740	4,500	6,817
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Depreciation and amortisation	102	49	-	-
Share of net profit of associates	(277)	-	-	-
Non-taxable dividends	-	(217)	(4,500)	(8,118)
Non allowable expenses	346	63	-	-
Sundry items	104	111	-	-
Under (over) provision in previous year	(293)	88	-	-
<b>Income tax expense</b>	<u>11,026</u>	<u>5,834</u>	<u>-</u>	<u>(1,301)</u>
<b>(c) Amounts recognised directly in equity</b>				
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited to equity (Note 24)	13,125	-	-	-

### 7. DIVIDENDS

	PARENT ENTITY	
	2006	2005
	\$'000	\$'000
<b>Ordinary dividends fully franked based on tax paid @ 30%</b>		
Final dividend for the year ended 31 December 2005 of 20 cents per share (2004 -19 cents) paid on 15 May 2006	4,458	4,087
Interim dividend of 19 cents ( 2005 - 18 cents) per share paid on 2 October 2006	4,261	3,935
Total dividends paid	<u>8,719</u>	<u>8,022</u>

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 31 December 2006 and 31 December 2005 were as follows:

Paid in cash	6,447	3,337
Satisfied by issue of shares	2,272	4,685
	<u>8,719</u>	<u>8,022</u>

#### Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 24 cents per share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 10 May 2007 out of the retained profits at 31 December 2006, but not recognised as a liability at year end, is:

6,487      4,435

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 7. DIVIDENDS (continued)

##### Franked dividends

The final dividend recommended after 31 December 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 31 December 2007.

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2005 - 30%)	25,418	18,500	25,418	18,500

The above amounts represent the balances of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of the dividends recognised as a liability at the reporting date; and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Impact on franking credits of dividends not recognised	(2,780)	(1,901)	(2,780)	(1,901)
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#### 8. CURRENT ASSETS - Cash and cash equivalents

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and on hand	864	1,494	-	-
Deposits at call	54,000	3,000	-	-
	54,864	4,494	-	-

The above figures are reconciled to cash at the end of the financial year as shown in the cash flow statements as follows:

Balances as above	54,864	4,494	-	-
Balance per statement of cash flows	54,864	4,494	-	-

##### Deposits at call

Deposits at call were placed at interest rates between 6.60 % and 7.38% ( 2005 - 6.42% and 6.81% )

#### 9. CURRENT ASSETS - Trade and other receivables

Trade receivables	43,623	47,159	-	-
Less: Provision for doubtful receivables	737	688	-	-
	42,886	46,471	-	-

#### 10. CURRENT ASSETS - Inventories

New motor vehicles - Bailment stock at cost  
(Refer notes 1(t),19 and 23)

	113,892	113,208	-	-
Less: Write-down to net realisable value	1,530	1,205	-	-
	112,362	112,003	-	-

Used vehicles - at cost

	26,209	18,569	-	-
Less: Write-down to net realisable value	912	745	-	-
	25,297	17,824	-	-

Parts and other consumables - At cost

	24,952	23,767	-	-
Less: Write-down to net realisable value	835	669	-	-
	24,117	23,098	-	-

Total Inventories

	161,776	152,925	-	-
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# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 11. CURRENT ASSETS - Other current assets

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Prepayments and deposits	3,751	1,498	-	-

### 12. NON-CURRENT ASSETS - Receivables

Amounts receivable from subsidiaries	-	-	104,993	64,357
	-	-	104,993	64,357

### 13. NON-CURRENT ASSETS

#### (a) Investments accounted for using the equity method

Shares in an associate - Auto Group Limited (refer iii)	-	-	-	-
Shares in an associate - M T Q Insurance Limited (refer ii)	1,706	-	-	-

(i) Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting (refer note 43).

(ii) In the previous year, the investment in MTQ Insurance Services Limited ("MTQ") was recognised at fair value and classified as "Financial assets at fair value through profit and loss". As a result of amendments to AASB 139: Financial Instruments - Recognition and Measurement effective for accounting periods on or after 1 January 2006, the requirements for using this classification under the revised standard were not met, and accordingly the investment in MTQ was reclassified to "Available-for-sale financial assets" (refer to Note 13(b) below). The impact of this reclassification was the restatement of certain 2005 comparative balances with reconciliations of the restated comparative balances disclosed in Note 1(y).

In the current year, the investment in MTQ is classified as "Investment accounted for using the Equity Method". The result of this change in classification in the current year is the reversal from the carrying amount of "Available-for-sale financial assets" :

- of the revaluation of the investment in prior years of \$3,539,000 (net of tax) against the "Available-for-sale Investment Revaluation Reserve";
- of the tax effect of the revaluation of the investment in prior years of \$1,485,000 against the "Deferred Tax Liabilities"; and
- the recognition of the share of profits of associates of \$922,000 (net of tax) in the current year.

(iii) Auto Group Ltd was placed in administration/receivership in February 2006 and subsequently into liquidation in June 2006 and consequently ceased to be an associate in 2006.

The Group's investment in Auto Group was fully written off in 2005 (refer Note 13 (c))

(iv) Reconciliation of the carrying amount of investment in associates is set out in note 43.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

#### (b) Available-for-sale financial assets

##### Listed Securities

Shares in other corporations - At fair value	113	17	91	-
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##### Unlisted Securities

Shares in other corporations - At Directors Valuation - 2005

- At the beginning of the year	6,656	-	-	-
- Adjustment on adoption of AASB 132 and AASB 139	-	4,589	-	-
- Additions	-	1,172	-	-
- Fair value gains	-	895	-	-
- Adjustment on adoption of equity accounting (refer note 13(a)(ii))	(6,656)	-	-	-
- At the end of the year	-	6,656	-	-

Total Available-for-sale financial assets	113	6,673	91	-
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## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 13. NON-CURRENT ASSETS (continued)

##### (c) Other financial assets

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<i>Listed Securities</i>				
Shares in other corporations - At cost	-	-	-	4,634
Less : Impairment write down (i)	-	-	-	(4,634)
	-	-	-	-
<i>Unlisted Securities</i>				
Investments in subsidiaries - at cost (note 31)	-	-	34,244	34,244
	-	-	34,244	34,244

(i) Auto Group was placed into voluntary administration on 10 February 2006. The Directors are of the opinion that the recoverable value of the investment is nil.

#### 14. Derivative financial instruments

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Non-current assets</b>				
Interest rate swap contracts - cash flow hedges	863	-	-	-

##### (a) Investments used by the group

The group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies (refer to Note 29).

Bailment finance of the Group currently bear an average variable interest rate of 7.28%. It is policy to protect part of this finance exposure to increasing interest rates. Accordingly, the Group has entered into an interest rate swap contract under which it is obliged to receive interest at variable rates and to pay interest at fixed rates.

The swap contract in place covers approximately 57% of the bailment finance outstanding at the year end. The fixed interest rate was 5.72% and the variable rates are between 5.63% and 6.39%.

The interest rate swap contract expires in September 2008.

The contracts require settlement of net interest receivable or payable each 30 days.

The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective and re-classified into profit and loss when the hedged interest expense is recognised. The ineffective portion is recognised in the income statement immediately.

At balance date, the contract was an asset with a fair value of \$863,000. No amount was recognised in the previous financial year as the amount involved was not material.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 15. NON-CURRENT ASSETS - Property, plant and equipment

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Freehold Land and buildings</b>				
At independent valuation				
Land	140,378	-	-	-
Buildings	72,565	-	-	-
At directors' valuation				
Land	-	111,305	-	-
Buildings	-	51,167	-	-
Construction in progress - at cost	11,393	10,693	-	-
Total land and buildings	224,336	173,165	-	-
<b>Leasehold improvements</b>				
At cost	7,182	5,832	-	-
Less: Accumulated amortisation	1,092	686	-	-
Total leasehold improvements	6,090	5,146	-	-
<b>Plant and equipment</b>				
At cost	22,347	21,905	-	-
Less: Accumulated depreciation	11,808	12,330	-	-
Total plant and equipment	10,539	9,575	-	-
Total property, plant and equipment	240,965	187,886	-	-

#### Valuation of land and buildings

The basis of valuation of land and buildings is the assessed fair value being the amounts for which the assets could be exchanged, between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The assessed fair value is supported by periodic, but at least triennial valuations, by external third party valuers.

The 2006 valuations were based on independent assessments made by a member of the Australian Property Institute as at 31 December 2006, whereas 2005 valuations were made by the directors based on their assessment of prevailing market conditions. The revaluation surplus net of applicable deferred income taxes was credited to Property Plant and Equipment Reserve in shareholders equity (Note 28).

#### Carrying amounts that would have been recognised if land and buildings were stated at cost

If freehold land was carried at historical cost, its current carrying value would be \$53,892,000 (2005 : \$71,828,000). If freehold buildings (including construction in progress) was carried at historical cost, its current carrying value would be \$85,576,000 (2005 : \$63,427,000).

#### Non-current assets pledged as security

Refer to note 23 for information on non-current assets pledged as security by the parent entity and its subsidiaries.

#### Reconciliations

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current year is set out below:

**A.P. EAGERS LIMITED**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**31 DECEMBER 2006 (continued)**
**15. NON-CURRENT ASSETS - Property, plant and equipment (continued)**

	Freehold land \$'000	Freehold buildings \$'000	Construction in progress \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
<b>Consolidated 2006</b>						
Carrying amount at start of year	111,305	51,167	10,693	5,146	9,575	187,886
Additions	6,290	-	17,954	1,349	3,145	28,738
Additions through acquisitions during the year	4,427	5,693	-	-	1,189	11,309
Disposals/Transfers	(30,271)	17,673	(17,254)	-	-	(29,852)
Revaluation surplus	48,627	-	-	-	-	48,627
Depreciation/amortisation expense (Note 5)	-	(1,968)	-	(405)	(3,370)	(5,743)
Carrying amount at end of year	140,378	72,565	11,393	6,090	10,539	240,965

**Consolidated 2005**

	Freehold land \$'000	Freehold buildings \$'000	Construction in progress \$'000	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
Carrying amount at start of year	107,386	53,239	1,037	3,950	8,917	174,529
Additions	12,848	396	9,656	1,546	2,578	27,024
Additions through acquisitions during the year	-	-	-	-	1,253	1,253
Disposals/Transfers	(8,929)	(858)	-	-	-	(9,787)
Depreciation/amortisation expense (Note 5)	-	(1,610)	-	(350)	(3,173)	(5,133)
Carrying amount at end of year	111,305	51,167	10,693	5,146	9,575	187,886

**16. NON-CURRENT ASSETS - Net deferred tax assets**

	<b>CONSOLIDATED</b>		<b>PARENT ENTITY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets	-	-	-	1,390

The balance comprises temporary differences attributable to:

*Amount recognised in profit or loss*

Tax losses	-	-	-	1,390
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The deferred tax revenue included in income tax expense in respect of the above temporary differences resulted from the following movements:

	<b>CONSOLIDATED</b>		<b>PARENT ENTITY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Opening balance at 1 January	-	-	1,390	376
Utilisation of tax losses during the year	-	-	(1,390)	(287)
Credited (charged) to the Income Statement (Note 6)	-	-	-	1,301
Closing balance at 31 December	-	-	-	1,390

# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 17. NON-CURRENT ASSETS - Intangibles

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Goodwill</b>	<b>26,403</b>	<b>23,131</b>	-	-
<b>Movement</b>				
Balance at the beginning of the financial year	23,131	13,657	-	-
Additional amounts recognised from business combinations during the year (Note 31(a))	3,272	9,474	-	-
Balance at the end of the financial year	26,403	23,131	-	-

#### (a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business operations, these being motor dealership operations. The smallest group of assets to which the goodwill relates is by motor dealership operation. Each motor dealership operation giving rise to goodwill was purchased as a combination of each of the segments as defined in Note 26, and it is to those assets that the goodwill is attributable. In terms of existing franchise arrangements, each of the specified segments in the operation cannot function in isolation, and it therefore has been necessary to combine the relevant segments to a particular motor dealership operation to test for goodwill, including impairment testing considerations. The allocation to business operations has been consistent for all impairment testing.

	Total \$'000
Motor dealership operations - 2006	26,403
Motor dealership operations - 2005	23,131

The recoverable amount of a CGU is determined based on its fair value less selling costs. Fair value is determined as being the amount obtainable for the sale of a CGU in an arms length transaction between knowledgeable and willing parties. This assessment is conducted by the directors based on their extensive knowledge of the motor industry including the current market conditions prevailing in the industry.

#### (b) Impairment charge

The Directors' assessment indicate that goodwill is not impaired and accordingly no impairment charge has been provided.

### 18. CURRENT LIABILITIES - Trade and other payables

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Trade payables	22,663	18,679	-	-
Other payables	10,322	9,443	-	-
	32,985	28,122	-	-

### 19. CURRENT LIABILITIES - Borrowings (secured)

	Note	2006	2005		
		\$'000	\$'000	\$'000	\$'000
Bailment finance - (Refer notes 1(t) and 10)	(a)	118,738	122,278	-	-
Bills payable and fully drawn advances	(b)	4,000	4,000	-	-
		122,738	126,278	-	-

#### (a) Bailment finance

Bailment finance is provided on a vehicle by vehicle basis by various finance providers at an average interest rate of 7.27% p.a. applicable at 31 December 2006 (2005- 6.47%)

Bailment finance is repayable within a short period after the vehicle is sold to a third party, generally within 48 hours.

#### (b) Bills payable and fully drawn advances

Refer note 23 for details of security.

# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 19. CURRENT LIABILITIES - Borrowings (secured) (continued)

#### (c) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on interest bearing liabilities is set out in note 29.

#### (d) Fair value disclosures

Details of the Group's fair value of interest bearing liabilities for the Group is set out in note 30.

#### (e) Security

Details of the security relating to each of the secured liabilities and further information on bank loans is set out in note 23.

### 20. CURRENT LIABILITIES - Current tax liabilities

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income tax	4,910	1,884	4,910	1,884

### 21. CURRENT LIABILITIES - Provisions

Employee benefits	4,284	3,305	-	-
Warranties	1,112	1,062	-	-
	5,396	4,367	-	-

#### Movement in provisions

Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

	Warranties \$'000
Consolidated - 2006	
Carrying amount at start of year	1,062
Provisions acquired	30
Additional provisions recognised	931
Payments charged against provisions	(911)
Carrying amount at end of year	1,112

#### Warranty Provision

An estimate is made based on past experience, and confirmation of future costs by the administrator of the warranty program, of the expected expenditure on new and used motor vehicles in terms of warranties on these vehicles.

### 22. NON-CURRENT LIABILITIES - OTHER

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Unearned income	450	450	-	-

### 23. NON-CURRENT LIABILITIES - Borrowings

#### Secured

Bills payable and fully drawn advances	104,600	91,600	-	-
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#### SECURED LIABILITIES

Total secured liabilities (current and non-current) are:

Bills payable and fully drawn advances	108,600	95,600	-	-
Bailment finance	118,738	122,278	-	-
Total secured liabilities	227,338	217,878	-	-



## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 23. NON-CURRENT LIABILITIES - Borrowings (continued)

The bank overdraft, bills payable and fully drawn advances are secured by registered mortgages given by subsidiaries over specific freehold land and buildings, a cross deed of covenant entered into by the Company and some of its subsidiaries and by a floating charge over the consolidated entity's used vehicle and parts inventory. The borrowings are also secured by a negative pledge that states that the consolidated entity will not, without prior written consent, at any time allow the consolidated interest cover (as specifically calculated) to fall below 2.50:1.

New vehicle bailment finance reflects a liability payable to the consolidated entity's bailment financiers. This liability is represented by debtors included in current assets receivables in respect of recent vehicle deliveries to customers and by new vehicles and demonstrator vehicles included in inventories (bailment stock) refer Note 10.

A portion of the consolidated entity's new vehicle bailment outstanding are secured by cross guarantees between specific subsidiaries.

#### ASSETS PLEDGED AS SECURITY

The carrying amounts of assets pledged as security are:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Non-current assets pledged as security - Freehold land and buildings -first mortgage	214,386	153,352	-	-
Current assets pledged as security - Inventories - Bailment finance	113,892	113,208	-	-
- Floating charge	50,182	41,421	-	-
Total assets pledged as security	378,460	307,981	-	-

#### FINANCING ARRANGEMENTS

The consolidated entity has access to the following lines of credit:

##### Total facilities

Bank overdrafts	5,000	5,000	-	-
Bills & fully drawn advance facilities	108,600	108,600	-	-
Bailment finance	151,255	147,155	-	-
Bank guarantees	6,455	4,945	-	-
Revolving credit facility	8,000	5,000	-	-
	279,310	270,700	-	-

##### Used at balance date

Bank overdrafts	-	-	-	-
Bills & fully drawn advance facilities	108,600	95,600	-	-
Bailment finance	113,133	122,278	-	-
Bank guarantees	6,455	4,945	-	-
Revolving credit facility	-	-	-	-
	228,188	222,823	-	-

##### Unused at balance date

Bank overdrafts	5,000	5,000	-	-
Bills & fully drawn advance facilities	-	13,000	-	-
Bailment finance	38,122	24,877	-	-
Bank guarantees	-	-	-	-
Revolving credit facility	8,000	5,000	-	-
	51,122	47,877	-	-

Certain bill facilities and fully drawn advance facilities are on fixed repayment schedules whilst others are of a floating nature. The revolving credit facility is utilised in conjunction with the bank overdraft facility to cover short term cash flow requirements.

All facilities are subject to annual review. Interest rates on borrowings are either fixed or variable.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 24. NON-CURRENT LIABILITIES - Net deferred tax liabilities

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Net deferred tax liabilities	20,249	6,631	722	722
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Depreciation	2,038	1,476	-	-
Inventory valuation	870	797	-	-
Prepayments	335	319	-	-
Provisions - Doubtful Debts	(231)	(206)	-	-
- Employee benefits	(3,005)	(2,507)	-	-
- Warranties	(334)	(319)	-	-
- Inventory write downs	(250)	(201)	-	-
Writedown of investment in associate	-	(1,390)	-	-
Sundry items	(34)	(145)	-	-
	(611)	(2,176)	-	-
<i>Amounts recognised directly in equity</i>				
Revaluation of property, plant and equipment	20,601	7,322	-	-
Available-for-sale financial assets	-	1,485	-	-
Other financial assets	-	-	722	722
Hedge accounting	259	-	-	-
	20,860	8,807	722	722
Net deferred tax liabilities	20,249	6,631	722	722

The deferred tax expense included in income tax expense in respect of the above temporary differences resulted from the following movements :

Opening balance at 1 January	6,631	7,275	722	722
Deferred tax assets relating to business combinations	(328)	(162)	-	-
Charged/ (credited) to Income Statement (Note 6)	821	(213)	-	-
Deferred tax recognised directly in equity				
- Revaluation of property plant and equipment (Note 28(a))	14,588	-	-	-
- Movement in fair value of cash flow hedge (Note 28(a))	259	-	-	-
Reversal of deferred tax liability (Note 13 (a))	(1,485)	-	-	-
Other reclassification	(237)	(269)	-	-
Closing balance at 31 December	20,249	6,631	722	722

#### 25. NON-CURRENT LIABILITIES - Provisions

Employee benefits	1,021	1,207	-	-
Make good provision on leasehold premises				
- refer (a) and (b) below	1,500	1,500	-	-
	2,521	2,707	-	-

(a) A make good clause under a long term property lease has been recognised in the financial statements during the year. The lessor of the property has been provided with a bank guarantee of \$1,500,000 in respect of the estimated make good cost.

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(b) Movement in the provision:				
Balance at start of year	1,500	-	-	-
Recognition of provision during the year (refer note 1(p))	-	1,500	-	-
Carrying amount at end of year	1,500	1,500	-	-

#### Make good provision on leasehold improvements

A provision has been made for the expected cost of restoring the premises to its original condition at the end of the lease.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 26. SEGMENT INFORMATION

##### (a) Description of segments

###### Business Segments

The consolidated entity is organised into the following divisions by product and service type.

- New vehicle operations - Sale of new motor vehicles and the attendant provision of finance, leasing and extended warranty.
  - Used vehicle operations - Sale of used motor vehicles and the attendant provision of finance, leasing and extended warranty.
  - Service operations - Provision of motor vehicle servicing.
  - Parts operations - Distribution and sale of motor vehicle parts and accessories.
- Inter segment sales are comprised of the sale of parts and accessories and internal labour priced on an arms length basis.

###### Geographical segments

The consolidated entity operates solely in Australia.

##### Segment reporting 2006

	New vehicle department \$'000	Used vehicle department \$'000	Parts department \$'000	Service department \$'000	Eliminations \$'000	Consolidated \$'000
Sales to external customers	696,217	261,548	156,673	55,805	-	1,170,243
Inter-segment sales	-	-	14,484	10,586	(25,070)	-
Total sales revenue	696,217	261,548	171,157	66,391	(25,070)	1,170,243
Unallocated revenue						4,093
TOTAL REVENUE						1,174,336
SEGMENT RESULT						
Segment Result	4,215	1,057	5,660	3,476	-	14,408
Internal interest and rental charges	5,045	3,198	2,191	3,671	-	14,105
SEGMENT CONTRIBUTION	9,260	4,255	7,851	7,147	-	28,513
Share of net profit of equity accounted investments						922
Profit on sale of property, plant and equipment						15,012
Unallocated corporate expenses						(7,634)
Income tax expense						36,813
NET PROFIT						(11,026)
						25,787
Depreciation and other amortisation	1,323	659	2,017	1,744	-	5,743
Non cash expenses other than depreciation and amortisation	57	26	49	44	-	176
Impairment of trade receivables	-	-	49	-	-	49
Write down of inventories to net realisable value	275	118	166	-	-	559
ASSETS						
Segment assets	206,010	48,707	59,571	72,818	-	387,106
Equity accounted investments						1,706
Unallocated corporate assets						144,515
CONSOLIDATED TOTAL ASSETS						533,327
LIABILITIES						
Segment liabilities	159,772	14,292	38,695	40,629	-	253,388
Unallocated corporate liabilities						40,461
CONSOLIDATED TOTAL LIABILITIES						293,849
Acquisitions of non current assets	6,289	8,185	5,652	6,633	16,560	43,319

# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 26. SEGMENT INFORMATION (continued)

#### Segment reporting 2005

	New vehicle department \$'000	Used vehicle department \$'000	Parts department \$'000	Service department \$'000	Eliminations \$'000	Consolidated \$'000
Sales to external customers	688,674	184,550	146,040	51,200	-	1,070,464
Inter-segment sales	-	-	19,123	10,808	(29,931)	-
Total sales revenue	688,674	184,550	165,163	62,008	(29,931)	1,070,464
Unallocated revenue						1,491
TOTAL REVENUE						1,071,955
SEGMENT RESULT						
Segment Result	5,430	(854)	6,469	5,167	(see note (i))	16,212
Internal interest and rental charges	3,559	2,161	2,138	2,325	(see note (i))	10,183
SEGMENT CONTRIBUTION	8,989	1,307	8,607	7,492	-	26,395
Share of net loss of equity accounted investments						(3,794)
Profit on sale of property, plant and equipment						2,794
Unallocated corporate expenses						(6,263)
Income tax expense						(5,834)
NET PROFIT						13,298
Depreciation and other amortisation	1,141	593	1,861	1,538	-	5,133
Non cash expenses other than depreciation and amortisation	(42)	(6)	(40)	(35)	-	(123)
Impairment of trade receivables	-	-	(340)	-	-	(340)
Write down of inventories to net realisable value	199	569	(103)	-	-	665
ASSETS						
Segment assets	193,159	36,672	56,387	59,011	-	345,229
Equity accounted investments						-
Unallocated corporate assets						77,849
CONSOLIDATED TOTAL ASSETS						423,078
LIABILITIES						
Segment liabilities	155,427	11,443	31,684	32,912	-	231,466
Unallocated corporate liabilities						30,573
CONSOLIDATED TOTAL LIABILITIES						262,039
Acquisitions of non current assets	6,448	5,091	5,483	7,755	14,146	38,923

#### Note(i)

The basis of internal rental charges were revised in 2006. Had the basis of internal rental charges applied in 2006 been applied in 2005, the comparative segment results and internal interest and rental charges would be follows :

	New vehicle department \$'000	Used vehicle department \$'000	Parts department \$'000	Service department \$'000	Eliminations \$'000	Consolidated \$'000
Segment Result	4,255	(1,268)	6,359	4,033	-	13,379
Internal interest and rental charges	4,734	2,575	2,248	3,459	-	13,016
SEGMENT CONTRIBUTION	8,989	1,307	8,607	7,492	-	26,395

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 27. CONTRIBUTED EQUITY

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Paid up capital				
Ordinary shares fully paid	106,264	77,311	106,264	77,311

#### (b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$'000
01-Jan-05	Balance	21,512,028		72,626
16-May-05	Dividend reinvestment plan issues	347,948	\$6.80	2,365
26-Sep-05	Dividend reinvestment plan issues	317,220	\$7.32	2,320
31-Dec-05	Balance	22,177,196		77,311
05-Apr-06	Shares issued to eligible employees under the employee tax exempt share plan	113,133	\$7.70	872
15-May-06	Dividend reinvestment plan issues	97,185	\$7.30	707
01-Aug-06	Shares issued under Senior Executive Deferred Commission Plan - Transfer from share-based payments reserve	36,486	\$6.62	241
25-Sep-06	Share placement	914,285	\$7.00	6,400
02-Oct-06	Rights Issue (one for eight)	2,804,219	\$7.00	19,630
	Costs of capital raising			(462)
02-Oct-06	Dividend reinvestment plan issue	223,843	\$7.00	1,565
31-Dec-06	Balance	26,366,347		106,264

(c) The company has a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than being paid in cash. Shares are issued under the plan at a 5% discount to the market price.

#### 28. RESERVES AND RETAINED PROFITS

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>(a) Reserves:</b>				
Capital profits reserve	21,158	10,546	-	-
Available-for-sale investment revaluation reserve (Note 13(a)(i))	-	3,539	1,683	1,683
Property, plant and equipment revaluation reserve	66,654	33,169	-	-
Hedging reserve - cash flow hedge	604	-	-	-
Share-based payments reserve	1,497	420	1,497	420
	89,913	47,674	3,180	2,103

#### Movements:

##### Capital profits reserve:

Balance at beginning of the financial year	10,546	6,222	-	-
Transfer from retained earnings relating to properties sold	10,612	4,324	-	-
Balance at the end of the financial year	21,158	10,546	-	-

##### Property, plant and equipment revaluation reserve :

Balance at beginning of the financial year	33,169	34,925	-	-
Revaluation surplus during the year - gross (Note 15)	48,627	-	-	-
Deferred tax (Note 24)	(14,588)	-	-	-
Reduction in tax payable on sale of revalued properties	237	-	-	-
Transfer to retained earnings on sale of revalued properties	(791)	(1,756)	-	-
Balance at the end of the financial year	66,654	33,169	-	-

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 28. RESERVES AND RETAINED PROFITS (continued)

	CONSOLIDATED		PARENT ENTITY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Available-for-sale investment revaluation reserve :				
Balance at beginning of the financial year	3,539	2,913	1,683	1,683
Revaluation - gross (Note 13a)	-	895	-	-
Deferred tax (Note 24)	-	(269)	-	-
Reversal on adoption of equity accounting (Note 13(a))	(3,539)	-	-	-
Balance at the end of the financial year	-	3,539	1,683	1,683
Hedging reserve - cash flow hedge:				
Balance at beginning of the financial year	-	-	-	-
Transfer to derivative financial instruments (gross)	863	-	-	-
Deferred tax (note 24)	(259)	-	-	-
Balance at the end of the financial year	604	-	-	-
Share-based payments reserve:				
Balance at beginning of the financial year	420	-	420	-
Expense incurred during the year	1,318	420	1,318	420
Transfer to share capital (shares issued)	(241)	-	(241)	-
Balance at the end of the financial year	1,497	420	1,497	420

#### (b) Retained earnings

Retained profits at the beginning of the financial year	36,054	33,347	17,971	1,968
Net profit for the year	25,787	13,298	15,000	24,025
Transfer to capital profits reserve on properties sold	(10,612)	(4,324)	-	-
Transfers from property, plant and equipment revaluation reserve on properties sold	791	1,755	-	-
Dividends provided for or paid (note 7)	(8,719)	(8,022)	(8,719)	(8,022)
Retained profits at the end of the financial year	43,301	36,054	24,252	17,971

#### (c) Nature and purpose of reserves.

##### (1) Capital profits reserve

Capital profits reserve represents realised gains on disposal of properties and is fully available for distribution to shareholders as dividends.

##### (2) Property, plant and equipment revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets as described in note 1(p). The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of unfranked cash dividends in limited circumstances as permitted by law.

##### (3) Available-for-sale investments revaluation reserve

Changes in the fair value arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(m). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

##### (4) Share-based payments reserve

The share-based payment reserve is used to recognise the fair value of performance rights expected to vest and the fair value of equity expected to be issued under the Senior Executive Deferred Commission Plan.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

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#### 29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, finance leases, bailment finance and hire purchase contracts, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for and fund the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

##### **Interest rate risk**

The group is exposed to interest rate risk on funds borrowed at both fixed and floating interest rates. Thus, the Group's exposure to changes in interest rates relates primarily to the Group's long term debt obligations. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The Group hedges part of the interest rate risk (see Note 14) by swapping floating for fixed interest rates.

##### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. Further, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Trade debtors consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of debtors and other receivable balances are monitored on an ongoing basis, with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from financial assets of the Group, which comprise of cash and cash equivalents, receivables and financial assets held at "fair value through profit or loss", the Group's maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is in the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

##### **Liquidity risk**

The Group's overall objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

The Group also manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Information on available facilities can be found in Note 23.

#### 30. FINANCIAL INSTRUMENTS

##### **Fair values**

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values (2005: fair value).

The fair values and net fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analyses.

Transaction costs are included in the determination of net fair value.

**A.P. EAGERS LIMITED**
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
31 DECEMBER 2006 (continued)**
**30. FINANCIAL INSTRUMENTS (continued)**

The following table details the fair value (2005: fair value) of consolidated financial assets and liabilities:

	<b>CARRYING AMOUNT</b>		<b>FAIR VALUE</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Term debtors	-	-	-	-
Trade debtors	42,886	46,471	42,886	46,471
Available-for-sale financial assets	113	6,673	113	6,673
Derivative financial instrument	863	-	863	-
Cash and cash equivalents	54,864	4,494	54,864	4,494
	<b>98,726</b>	<b>57,638</b>	<b>98,726</b>	<b>57,638</b>
<b>Financial liabilities</b>				
Bills payable and fully drawn advances	108,600	95,600	108,600	95,600
New vehicle bailment	118,738	122,278	118,738	122,278
Trade and other payables	32,985	28,122	32,985	28,122
	<b>260,323</b>	<b>246,000</b>	<b>260,323</b>	<b>246,000</b>

**Maturity profile**

The following table sets out the carrying amount, by maturity, of the consolidated financial instruments that are exposed to interest rate risk as at 31 December 2006

	<b>Less than 1 year</b>	<b>1 - 2 years</b>	<b>2 - 3 years</b>	<b>3 - 4 years</b>	<b>4 - 5 years</b>	<b>5+ years</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Floating Rate</b>							
Financial assets							
Cash and cash equivalents	54,864	-	-	-	-	-	54,864
	<b>54,864</b>	-	-	-	-	-	<b>54,864</b>
<b>Average interest rate</b>	<b>6.56%</b>						
Financial liabilities							
New vehicle bailment (current)	118,738	-	-	-	-	-	118,738
Bills payable and fully drawn advances (current)	4,000	-	-	-	-	-	4,000
Bills payable and fully drawn advances (non-current)	-	58,000	-	-	-	-	58,000
	<b>122,738</b>	<b>58,000</b>	-	-	-	-	<b>180,738</b>
<b>Average interest rate</b>	<b>7.27%</b>	<b>7.24%</b>					
<b>Fixed Rate</b>							
Financial liabilities							
Bills payable and fully drawn advances (non-current)	-	46,600	-	-	-	-	46,600
	-	<b>46,600</b>	-	-	-	-	<b>46,600</b>
<b>Average Interest Rate</b>		<b>6.93%</b>					
<b>Non Interest Bearing</b>							
Financial assets							
Trade debtors							42,886
Derivative financial instrument							863
Available-for-sale financial assets							113
							<b>43,862</b>
Financial liabilities							
Trade and other payables							<b>32,985</b>



## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 30. FINANCIAL INSTRUMENTS (continued)

The following table sets out the carrying amount, by maturity, of the consolidated financial instruments that are exposed to interest rate risk as at 31 December 2005

	Less than 1 year \$'000	1 - 2 years \$'000	2 - 3 years \$'000	3 - 4 years \$'000	4 - 5 years \$'000	5+ years \$'000	Total \$'000
<b>Floating Rate</b>							
Financial assets							
Cash and cash equivalents	4,494	-	-	-	-	-	4,494
	<u>4,494</u>	-	-	-	-	-	<u>4,494</u>
<b>Average interest rate</b>	6.18%						
Financial liabilities							
New vehicle bailment (current)	122,278	-	-	-	-	-	122,278
Bills payable and fully drawn advances (current)	4,000	-	-	-	-	-	4,000
Bills payable and fully drawn advances (non-current)	-	41,000	-	-	-	-	41,000
	<u>126,278</u>	<u>41,000</u>	-	-	-	-	<u>167,278</u>
<b>Average interest rate</b>	6.48%	6.63%					
<b>Fixed Rate</b>							
Financial liabilities							
Bills payable and fully drawn advances (non-current)	-	50,600	-	-	-	-	50,600
	-	<u>50,600</u>	-	-	-	-	<u>50,600</u>
<b>Average Interest Rate</b>		6.79%					
<b>Non Interest Bearing</b>							
Financial assets							
Trade debtors							46,471
Derivative financial instrument							-
Available-for-sale financial assets							<u>6,673</u>
							<u>53,144</u>
Financial liabilities							
Trade and other payables							<u>28,122</u>

#### 31. INVESTMENTS IN SUBSIDIARIES

Name of entity	Cost of parent entity's investment 2006 \$'000	2005 \$'000	2006 %	Equity holding 2005 %
At cost:				
Eagers Retail Pty Ltd	4,676	4,676	100	100
Eagers Parts & Equipment Pty Ltd	40	40	100	100
Eagers Finance Pty Ltd	102	102	100	100
Nundah Motors Pty Ltd	93	93	100	100
Eagers Nominees Pty Ltd	50	50	100	100
Austral Pty Ltd	413	413	100	100
E G Eager & Son Pty Ltd	3,516	3,516	100	100
A.P. Group Ltd	21,488	21,488	100	100
A.P. Ford Pty Ltd	-	-	100	100
A.P. Motors Pty Ltd	-	-	100	100
A.P. Motors (No.1) Pty Ltd	-	-	100	100
A.P. Motors (No.2) Pty Ltd	-	-	100	100
A.P. Motors (No.3) Pty Ltd	-	-	100	100
Associated Finance Pty Limited	-	-	100	100
Leaseline & General Finance Pty Ltd	-	-	100	100
City Automotive Group Pty Ltd	3,866	3,866	100	100
	<u>34,244</u>	<u>34,244</u>		

All subsidiaries are either directly controlled by A.P. Eagers Limited, or are wholly owned within the group, have ordinary class of shares and are incorporated in Australia.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 31. INVESTMENTS IN SUBSIDIARIES (continued)

##### (a) Acquisition of businesses

The Group acquired various businesses during the year as detailed below.

The acquired businesses contributed revenues of \$93,236,000 and profit before tax of \$237,000 from the respective dates of acquisitions to 31 December 2006.

If the acquisitions had occurred on 1 January 2006, the consolidated revenue and the consolidated profit before tax would have been \$1,221 million and \$37 million respectively.

Date of acquisition Business name	27-Feb-06 Bayside Honda & Kia \$'000	01-Mar-06 Brisbane Motor Auctions \$'000	14-Aug-06 Hidden Valley Ford & Stuart Motor Group \$'000	15-Dec-06 Austral Audi/ Citroen \$'000	2006 Total Fair Value \$'000	2005 Total Fair Value \$'000
Fair value of assets acquired:						
Trade receivables	27	14	10	67	118	-
Inventory	2,725	1,014	5,203	1,279	10,221	3,119
Property, plant and equipment	121	98	10,975	115	11,309	1,253
Deferred tax assets	10	214	97	7	328	162
Creditors and borrowings	(2,146)	(715)	(3,988)	(1,259)	(8,108)	(824)
Fair value of net assets acquired	737	625	12,297	209	13,868	3,710
Acquisition cost -						
Cash consideration	847	1,435	14,167	691	17,140	13,184
Goodwill paid on acquisition	110	810	1,870	482	3,272	9,474

Goodwill arose in the business combination because the consideration paid for the combination included amounts in relation to the benefit of expected synergies and future revenue and profit growth from the businesses acquired. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

#### 32. CONTINGENT LIABILITIES

##### (a) Parent entity

Unsecured guarantees, indemnities and undertakings have been given by the parent entity in the normal course of business in respect of financial and trade arrangements entered into by its subsidiaries. It is not practicable to ascertain or estimate the maximum amount for which the parent entity may become liable in respect thereof. At 31 December 2006 no subsidiary was in default in respect of any arrangement guaranteed by the parent entity and all amounts owed have been brought to account as liabilities in the financial statements.

##### (b) Deed of cross guarantee

A.P. Eagers Limited and all of its subsidiaries are parties to a deed of cross guarantee which has been lodged with and approved by the Australian Securities and Investments Commission. Under the deed of cross guarantee each company guarantees the debts of the other companies.

The maximum exposure of the parent entity in relation to the cross guarantees is \$293,478,000 (2005 : \$262,039,000).

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 33. COMMITMENTS FOR EXPENDITURE

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>Capital Commitments</b>				
Commitments for the construction of buildings and acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	8,988	5,680	-	-
<b>Operating Lease Commitments</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases for premises are payable as follows:				
Within 1 year	4,058	2,443	-	-
Later than 1 year but not later than 5 years	9,986	5,315	-	-
Later than 5 years	6,301	3,619	-	-
	<b>20,345</b>	<b>11,377</b>	<b>-</b>	<b>-</b>

The consolidated entity leases property under non-cancellable operating leases with expiry dates between 30 April 2006 and 31 May 2014. Leases generally provide for a right of renewal at which time the lease is renegotiated. Lease rental payments comprise a base amount plus an incremental contingent rental based on movements in the consumer price index or a fixed percentage increase.

#### 34. ECONOMIC DEPENDENCY

The normal trading activities of a number of entities in the consolidated entity depend on franchise agreements with the following vehicle manufacturers or their appointed agents for the supply of new vehicles, parts and accessories:

- Holden Ltd
- Ford Motor Company of Australia Limited
- Toyota Motor Corporation Australia Limited

#### 35. REMUNERATION OF AUDITOR

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Amounts received or due and receivable by DTT (NSW) for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	268,500	225,000	9,000	9,000
Amounts received or due and receivable by related entities of DTT (NSW) for:				
- tax compliance services in relation to the entity and any other entity in the consolidated entity	23,550	11,750	-	-
- other services in relation to the entity and any other entity in the consolidated entity				
- AIFRS and other technical advisory services	91,464	30,250	-	-
- Due diligence services	5,785	16,500	-	-
- Other advisory services	37,072	26,252	-	-
	<b>426,371</b>	<b>309,752</b>	<b>9,000</b>	<b>9,000</b>

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 36. SUBSEQUENT EVENTS

On 28 February 2007 the company paid \$29 million to acquire 100% of the shares in Peter Dunn Investments Pty Ltd, Peter Robinson Investments Pty Ltd and Trevor Reading Investments Pty Ltd which collectively owned 100% of the shares in PPT Investments Pty Ltd trading as the Kloster Group in Newcastle and the Hunter Valley region of New South Wales.

The \$29 million transaction was settled by the issue of 631,581 shares in A.P.Eagers Limited and \$23 million in cash. Concurrently A.P.Eagers Limited purchased all the land and buildings used by the Kloster Group that were owned by the vendors for \$34 million cash.

The Kloster Group, with turnover of \$300 million per annum is the premier motor dealership group in Newcastle and the Hunter Valley region with impressive facilities in the best locations. They concurrently have exclusive representation for BMW/Mini, Chrysler Jeep and Dodge, Ford, Honda, Hyundai, Mitsubishi, Nissan, Suzuki and VW within Newcastle along with additional representation for Ford and Hyundai in a number of regional centres in the Hunter Valley.

#### 37. KEY MANAGEMENT PERSONNEL

The remuneration report included in the directors' report sets out the remuneration policies of the consolidated entity and the relationship between these policies and the consolidated entity's performance.

The following have been identified as key management personnel with authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly during the financial year:

##### (a) Details of key management personnel

###### (i) Directors

B W Macdonald	Chairman (non-executive)
M A Ward*	Managing Director and Chief Executive Officer
D A Aitken**	Director (non-executive)
P W Henley***	Director (non-executive)
A J Love	Director (non-executive)
N G Politis	Director (non-executive)

\* appointed a director 6 March 2006

\*\* retired 31 March 2006

\*\*\* appointed 8 December 2006

###### (ii) Executives

D W Hull	Group Company Secretary
G I Walker	Chief Financial Officer
K Thornton	General Manager Operations - Vehicles

##### (b) Compensation of key management personnel

The aggregate compensation made to key management personnel of the Company and the Group is set out below.

	CONSOLIDATED & PARENT ENTITY	
	2006	2005
	\$	\$
Short term	1,891,928	2,072,157
Post employment	247,954	353,728
Termination benefits	-	121,557
Share based payment	841,383	420,691
	<u>2,981,265</u>	<u>2,968,133</u>

The compensation of each member of the key management personnel of the Group for the current and prior year are set out in the Remuneration Report contained in the Directors' Report.

##### (c) Option holdings of key management personnel

Details of options held by key management personnel can be found in Note 37 (g).

# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 37. KEY MANAGEMENT PERSONNEL (continued)

#### (d) Relevant Interest in shares held by key management personnel

	At 1 January 2006	Dividend Reinvestment Plan	Purchases	Sales	At 31 December 2006
Directors					
B W Macdonald	75,000	-	9,375	-	84,375
M A Ward	8,886	820	15,517	-	25,223
A J Love	24,000	-	10,211	-	34,211
N G Politis	9,693,801	103,083	1,211,601	-	11,008,485
P W Henley	-	-	530	-	530
Executives					
D W Hull	47,777	-	11,074	-	58,851
K Thornton	-	74	4,022	-	4,096
G I Walker	5,864	387	3,975	-	10,226
	<u>9,855,328</u>	<u>104,364</u>	<u>1,266,305</u>	<u>-</u>	<u>11,225,997</u>

#### (e) Loans to key management personnel

There are no loans to key management personnel

#### (f) Other transactions with key management personnel

Other transactions with key management personnel are detailed in note 39: Related parties

#### (g) Share Based Payments

The Chief Executive Officer has been granted rights under a share incentive plan from 1 July 2005. To date, 500,000 rights have been granted in terms of the plan, with vesting in 5 tranches of 100,000 rights over a 5 year period. The vesting of the performance rights granted is based on the total shareholder return (TSR) of the Group compared to the TSR of a basket of peer constituents (based on the ASX 300), to determine the ranking of the Group. This ranking is converted to a percentile rating which is then used to determine the proportion of awards that vest on a scaled basis. Built into the plan is re-testing after 12 and 24 months if the tranche has not achieved 100% vesting, and is used to determine whether additional vesting is available. Any performance rights not vested after the retesting periods lapse. The performance rights are settled in shares in the Company, with no further cost to the employee. Further information on the determination of the fair value of the performance rights can be found in Note 2(a)(iv)

The number of performance rights granted is as follows:

Number of performance rights	Grant date	End of performance period	Expiry date	Fair value of each performance right
100,000	1-Jul-05	30-Jun-06	1-Jul-08	\$4.78
100,000	1-Jul-05	30-Jun-07	1-Jul-09	\$4.92
100,000	1-Jul-05	30-Jun-08	1-Jul-10	\$4.68
100,000	1-Jul-05	30-Jun-09	1-Jul-11	\$4.46
100,000	1-Jul-05	30-Jun-10	1-Jul-12	\$4.25

No performance rights have vested during the year.

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 38. EMPLOYEE ENTITLEMENTS

##### Superannuation benefits

The consolidated entity makes contributions to several Superannuation Funds which provide accumulated benefits based on the value of the accumulated contributions and investment returns which are credited to each member's account.

#### 39. RELATED PARTIES

##### Key Management Personnel

Information on key management personnel is disclosed in Note 37.

##### Remuneration and retirement benefits

Information on the remuneration of key individual management personnel is disclosed in the Remuneration Report included in the Directors' Report.

##### Other transactions of directors and director related entities

The aggregate amount of "Other transactions" with key management personnel are as follows:

	CONSOLIDATED		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
(i) Professional fees paid to - McGee Isles Love Pty Ltd	3,464	1,467	-	-

Mr A J Love is a director of McGee Isles Love Pty Ltd which provided professional services to the consolidated entity. All dealings with this firm are in the ordinary course of business and are on normal commercial terms and conditions.

(ii) Mr N.G.Politis is a director and shareholder of a number of companies involved in the motor industry with whom the consolidated entity transacts business. These transactions, sales of \$47,051 (2005 :\$40,903) and purchases of \$79,901(2005 - \$79,552) during the last 12 months, are primarily the sale and purchase of spare parts and accessories and are carried out under terms and conditions no more favourable than those which it is reasonable to expect would have applied if the transactions were at arm's length.

(iii) Controlled entities may, from time to time, sell motor vehicles, parts and servicing of motor vehicles for domestic use to directors of entities in the consolidated entity or their director-related entities within a normal employee relationship on terms and conditions no more favourable than those which it is reasonable to expect would have been adopted if dealing with the directors or their director-related entities at arm's length in the same circumstances

##### Wholly-owned group

The parent entity in the wholly-owned group is A.P. Eagers Limited. Information relating to the wholly-owned group is set out in note 31.

Transactions between the parent entity and its subsidiaries and amongst the various subsidiaries consist of the payment and receipt of dividends, rent (on a commercial basis) and administration charges (on a recoupment basis), the transfer of funds amongst the companies for day to day financing and investment of surplus funds, and the payment and receipt of interest on net working capital.

Amounts receivable by the parent entity from related parties in the wholly owned group at balance date are shown in note 12.

# A.P. EAGERS LIMITED

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

### 40. EARNINGS PER SHARE

	<b>CONSOLIDATED</b>	
	<b>2006</b>	<b>2005</b>
	<b>Cents</b>	<b>Cents</b>
(a) Basic earnings per share		
Earnings attributable to the ordinary equity holders of the company	<b>110.5</b>	61.0
(b) Diluted earnings per share		
Earnings attributable to the ordinary equity holders of the company	<b>108.2</b>	59.6
(c) Reconciliations of earnings used in calculating earnings per share		
	<b>CONSOLIDATED</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Basic Earnings per Share</i>		
Profit for the year	<b>25,787</b>	13,298
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<b>25,787</b>	13,298
<i>Diluted Earnings per Share</i>		
Profit for the year	<b>25,787</b>	13,298
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<b>25,787</b>	13,298
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	<b>23,326,937</b>	21,815,585
Adjustments for calculation of diluted earnings per share		
- Performance rights	<b>500,000</b>	500,000
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	<b>23,826,937</b>	22,315,585

### 41. RECONCILIATION OF NET PROFIT AFTER TAX TO THE NET CASH INFLOWS FROM OPERATIONS

	<b>CONSOLIDATED</b>		<b>PARENT ENTITY</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Net profit after tax	<b>25,787</b>	13,298	<b>15,000</b>	24,025
Depreciation and amortisation	<b>5,743</b>	5,133	-	-
Profit on sale of property, plant and equipment	<b>(15,012)</b>	(2,794)	-	-
Share of losses (profits) of associates	<b>(922)</b>	3,794	-	-
Dividends from subsidiaries	-	-	<b>(15,000)</b>	(27,000)
Dividends from investments	<b>848</b>	62	-	(62)
Fair value (gains)/losses of financial assets at fair value through profit and loss	-	-	-	4,338
Employee share scheme	<b>2,189</b>	420	-	-
(Increase) decrease in assets -				
Receivables	<b>3,654</b>	(3,120)	-	-
Inventories	<b>325</b>	(21,897)	-	-
Prepayments	<b>(2,117)</b>	583	-	-
Deferred tax	<b>(488)</b>	108	-	(1,301)
Increase (decrease) in liabilities -				
Creditors (including bailment finance)	<b>(5,389)</b>	22,563	-	-
Provisions	<b>(70)</b>	(498)	-	-
Taxes payable	<b>4,287</b>	(244)	-	-
Net cash inflow from operating activities	<b>18,835</b>	17,408	-	-

## A.P. EAGERS LIMITED

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS 31 DECEMBER 2006 (continued)

#### 42. NON-CASH TRANSACTIONS

Payment of dividend of \$2,271,909 (2005: \$4,685,206) under the Dividend Reinvestment Plan was settled by way of issue of 321,028 shares (2005: 665,168 shares).

#### 43. INVESTMENTS IN ASSOCIATES

##### (a) Carrying amounts

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Information relating to the associates is set out below.

Name of company	Ownership interest		Consolidated carrying amount		Parent entity carrying amount	
	2006 %	2005 %	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Traded on organised markets</i>						
Auto Group Limited (in liquidation)	-	18.68%	-	-	-	-

Auto Group Ltd was placed in administration/receivership in February 2006 and subsequently in liquidation in June 2006 and consequently ceased to be an associate during 2006. The Group's investment in Auto Group was fully written off in 2005.

##### *Unlisted Securities*

M T Q Insurance Services Limited	19.43%	-	1,706	-	-	-
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The investment in M T Q Insurance Services Limited was equity accounted from 1 January 2006 (refer Note 13(a)(i)). M T Q Insurance Services Limited is incorporated in Australia. Its principal activities are the sale of consumer credit, equity plus insurance products and investment activities.

	CONSOLIDATED	
	2006 \$'000	2005* \$'000
<b>(b) Movement in carrying amounts of investments in associate -</b>		
Carrying amount at the beginning of the financial year	-	3,856
Cost of investment in the associate, M T Q Insurance Services Limited	1,632	-
Equity share of profit/(loss) from ordinary activities after income tax	922	(3,794)
Dividends received during current year	(848)	(62)
Carrying amount at the end of the financial year	1,706	-

##### (c) Results attributable to associates

Profit from ordinary activities before income tax	1,275	(3,539)
Income tax expense	(353)	(255)
Profit (loss) from ordinary activities after income tax	922	(3,794)

##### (d) Share of associate's contingent liabilities at 31 December 2006

Guarantees given on behalf of controlled entities for borrowing facilities	-	11,632
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##### (e) Share of associate's expenditure commitments at 31 December 2006

Lease commitments	33	7,460
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##### (f) Summarised financial information of associates

The aggregate profits, assets and liabilities of associates are:

Revenue	20,667	713,914
Profits (losses) from ordinary activities after income tax expense	4,528	(22,880)
Assets at 31 December 2006	49,778	113,079
Liabilities at 31 December 2006	34,839	103,666

\* 2005 comparatives relate to the Group's investment in Auto Group Limited whilst it was an associate until 31 December 2005.



## A.P. EAGERS LIMITED

### SHAREHOLDER INFORMATION

#### Class of Securities

As at 3 April 2007 the company's only quoted security comprised 27,028,391 fully paid ordinary shares.

The shareholder information set out below was applicable as at 3 April 2007.

#### Twenty largest holders – ordinary shares

Name	Number of Ordinary Shares Held	Percentage of Issued Shares
WFM Motors Pty Ltd	11,007,360	40.73
Paterson Cheney Investments Pty Ltd	1,941,845	7.18
Alan Piper Investments (No.1) Pty Ltd	1,281,250	4.74
Milton Corporation Limited	810,000	3.00
Argo Investments Limited	795,603	2.94
National Nominees Limited	539,008	1.99
Berne No 132 Nominees Pty Ltd	419,540	1.55
Mrs D Colman	376,342	1.39
Ms C Blackley	330,190	1.22
Invia Custodian Pty Ltd	314,156	1.16
ANZ Executors & Trustee Company Limited	236,384	0.88
Mr Peter Dunn	210,527	0.78
Mr Trevor Reading	210,527	0.78
Mr Peter Gary Robinson	210,527	0.78
Mrs J E Green	160,262	0.59
Mrs P J McKerrell	152,016	0.56
Wagreen Pty Ltd	128,841	0.48
Choiseul Investments Limited	120,000	0.44
Citicorp Nominees Pty Limited	106,893	0.40
Niblick Pty Limited	97,846	0.36
	<b>19,449,117</b>	<b>71.95</b>

#### Distribution of Holdings of Ordinary Shares

Range	No of Holders
1 - 1,000	1,374
1,001 - 5,000	799
5,001 - 10,000	219
10,001 - 100,000	158
100,001 and over	20
	<b>2,570</b>

The number of ordinary shareholders with less than a marketable parcel was 47.

#### Substantial Shareholders

An extract from the company's register of substantial shareholders giving details of the number of ordinary shares in which they have a relevant interest, is set out below.

	Date of Notice	No. of Shares	Percentage of Shares then issued
WFM Motors Pty Ltd	4 October 2006	11,009,360	41.76
Patterson Cheney Investments Pty Ltd	19 March 2003	1,406,465	7.30

## **A.P. EAGERS LIMITED**

### **SHAREHOLDER INFORMATION (continued)**

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#### **Stock Exchange Listing**

A.P. Eagers Limited shares are quoted on the Australian Stock Exchange Limited under the symbol APE. Brisbane is the Home Exchange.

#### **Voting Rights of Members**

- Article 69 states:

Every member entitled to vote who is present in person or by proxy or by attorney or in the case of a corporation by representative shall upon a show of hands have one (1) vote only and on a poll every member entitled to vote shall whether present in person or by proxy or attorney or in the case of a corporation by representative have one (1) vote for every share held by him.

- Article 70 states:

Where there are joint registered holders of any shares any one (1) of such persons may vote at any meeting either personally or by attorney or by proxy in respect of such shares as if he were solely entitled thereto and if more than one (1) of such joint holders be present at any meeting personally or by attorney or proxy that one (1) of the said persons whose name stands first in the register in respect of such shares shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any shares stand shall for the purpose of this clause be deemed joint holders thereof.

## A.P. EAGERS LIMITED

### CORPORATE INFORMATION

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#### A.P. EAGERS LIMITED

A.B.N. 87 009 680 013

#### Incorporation

Incorporated in Queensland on  
17 April 1957

#### Registered Office

80 McLachlan Street, Fortitude Valley,  
Brisbane Qld 4006

#### Postal Address

PO Box 199, Fortitude Valley,  
Qld 4006

#### Telephone

(07) 3248 9455

#### Facsimile

(07) 3248 9459

#### Website

[www.apeagers.com.au](http://www.apeagers.com.au)

#### Issued Capital

27,028,391 ordinary shares  
fully paid (as at 3 April 2007)

#### Auditor

DTT NSW  
Grosvenor Place 225 George Street  
Sydney NSW 2000

#### Solicitors

Nicol Robinson Halletts  
Level 10 175 Eagle Street,  
Brisbane Qld 4000

#### Bankers

Australia and New Zealand Banking  
Group Limited  
Level 3 324 Queen Street,  
Brisbane Qld 4000

#### Share Registry

Computershare Investor Services Pty Ltd  
Level 19 CPA Building  
307 Queen Street Brisbane,  
Queensland, 4000.  
Tel: (07) 3237 2100  
Fax: (07) 3229 9860

#### Board of Directors

B W Macdonald, Chairman  
M A Ward, Managing Director & Chief Executive Officer  
A J Love  
N G Politis  
P W Henley

#### Secretary

D W Hull, F.C.I.S.

#### Executive Management

Martin Ward	- Managing Director & Chief Executive Officer
Dennis Hull	- Company Secretary
Geoff Walker	- Chief Financial Officer
Keith Thornton	- General Manager Operations - Vehicles

#### Controlled Entities

Eagers Retail Pty Ltd  
A.B.N. 91 009 662 211  
Austral Pty Ltd  
A.B.N. 89 009 662 202  
Nundah Motors Pty Ltd  
A.B.N. 52 009 681 556  
Eagers Nominees Pty Ltd  
A.B.N. 98 009 723 488  
Eagers Finance Pty Ltd  
A.B.N. 65 009 721 288  
Eagers Parts & Equipment Pty Ltd  
A.B.N. 58 009 727 753  
E.G. Eager & Son Pty Ltd  
A.B.N. 20 009 658 306  
A.P. Group Ltd  
A.B.N. 53 010 030 994  
A.P. Ford Pty Ltd  
A.B.N. 43 010 602 383  
A.P. Motors Pty Ltd  
A.B.N. 76 010 579 996  
A.P. Motors (No.1) Pty Ltd  
A.B.N. 95 010 585 234  
A.P. Motors (No.2) Pty Ltd  
A.B.N. 97 010 585 243  
A.P. Motors (No.3) Pty Ltd  
A.B.N. 99 010 585 252  
Associated Finance Pty Limited  
A.B.N. 76 009 677 678  
Leaseline & General Finance Pty Ltd  
A.B.N. 51 010 131 361  
City Automotive Group Pty Ltd  
A.B.N. 14 067 985 602  
PPT Holdings No 1 Pty Ltd  
A.C.N. 078 207 333  
PPT Holdings No 2 Pty Ltd  
A.C.N. 078 207 397  
PPT Holdings No 3 Pty Ltd  
A.C.N. 078 207 468  
PPT Investments Pty Ltd  
A.B.N. 80 000 868 860

