



18 November 2011

2011 AGM – Chairman’s Address

Good morning and welcome to the 2011 Annual General Meeting of Automotive Holdings Group Limited. My name is David Griffiths and it is a great pleasure to welcome you here today to my first AGM as Chairman of the Company.

Please switch off your mobile phones and any electronic devices or turn them to silent.

If you have not already done so, please register your attendance with the Computershare Investor Services just outside the door.

I declare this meeting open and declare that there is a quorum present.

The Notice of Annual General Meeting has been forwarded to all shareholders and is taken as read.

The minutes of the 2010 Annual General Meeting were approved by the Board and have been tabled.

Any shareholder who wishes to view a copy of the minutes is welcome to do so and should see the Company Secretary after the meeting.

I will now introduce my fellow directors:-

Hamish Williams, Executive Director – Strategy and Planning
Peter Stancliffe, Non Executive Director, who is standing for re-election
Michael Smith, Non Executive Director and Deputy Chairman
John Groppoli, Non Executive Director, who is standing for re-election, and
Bronte Howson, Managing Director

Also alongside the Board members today is David Rowland, who joined AHG in August of this year as Company Secretary.

In the audience I welcome Glyn O’Brien of BDO, in his capacity as representative for the Company’s auditor and Roger Davies of Blake Dawson, AHG’s legal advisers.

The format of today’s proceedings will be as follows:

I will speak briefly about some highlights for the year ended 30 June 2011 and Bronte will provide you with an operational overview which will look at the results for the 2010/11 financial year, a summary of year-to-date performance and the outlook for AHG.

More detailed information about our results and AHG in general are covered in the annual report, copies of which are available at the back of the room. You may also wish to visit the AHG website.

The Notice of Meeting gives details of four resolutions. I will review each resolution separately as we come to it and shareholders will be invited to ask questions on each resolution at that time

If you are a shareholder and wish to ask a question at that point, please raise your hand and a microphone will be handed to you.

You must have a [green] card that signifies you are a shareholder, or valid proxy holder or representative to ask questions. Please state your name prior to asking your question.

Voting on Resolution 1, Adoption of the Remuneration Report, will be by way of a poll conducted in accordance with the Company's constitution, and I will **not** be calling for a show of hands on Resolution 1. This is to ensure an accurate result in light of the recently introduced "Two Strikes Rule" under the Corporations Act. For convenience, and given the potential delays involved in conducting a poll, discussion on Resolution 1 and conduct of the poll will be deferred to be the last item of business at today's meeting.

Shareholders will be given an opportunity to ask questions on the remuneration report prior to conducting the poll.

Voting on Resolutions 2.1 and 2.2, which deal with the Re-election of certain Directors, will be conducted on a show of hands, unless a poll is demanded in accordance with the Company's Constitution. Please raise your [green] card when you vote on any resolution.

Resolution 3 deals with the ratification of a placement by the Company. This resolution was intended as a bit of good housekeeping to refresh the 15% placement capacity. However, a number of shareholders have expressed concern with this resolution and may have been concerned that the company intended to raise more capital in the near term. The Company is well capitalised at present and has no current intention of raising any further capital so in view of this concern it is considered appropriate to withdraw that resolution from the meeting.

For the purpose of clarity, when I refer to Operating results – these exclude non-recurring items, which in FY11 were the impairment charge and acquisition-related costs and in FY10 the profit from the sale of investments.

Despite some challenging market conditions, the 2011 result featured a record operating¹ EBITDA of \$123.7 million, a 6.7% increase on the previous corresponding period with record operating¹ EBITDA from our automotive operations in Western Australia, New South Wales and New Zealand; and record revenue and operating¹ EBITDA from our logistics division.

Group revenue for the financial year grew to \$3.34 billion, a 3.0% increase on FY10 (\$3.24 billion) with operating¹ net profit after tax of \$52.4 million (95.1% of the previous corresponding period). The operating¹ EBITDA margin increased to 3.71% (3.57% pcp).

Net Interest Expense rose by 38% or \$7.5 million in FY11 driven by higher average interest rates and higher average debt for the year before the receipt of the proceeds of the placement in mid May.

Operating¹ earnings per share were 22.7 cents (24.4 cents pcp). Directors declared an unchanged final dividend of 10 cents to match last year's full year fully franked payout of 17 cents.

The dividend was paid on the expanded share base following the \$83 million capital raising in May 2011 and resulted in a payout ratio of 80% of net operating profit which is above what Directors still consider to be the usual distribution range of 65 % to 75%.

Statutory net profit after tax was \$31.2 million after an impairment of \$19.9 million in our Queensland operations and acquisition related costs of \$1.3 million net of tax.

The Group's balance sheet was strengthened by the capital raising which was used to fund the Harris and Coventry's acquisitions in July while the balance of the funds will support future growth opportunities which we believe will be predominantly in the automotive division.

At the time of the raising we said we expected Harris and Covs would be EPS accretive in FY13 as both required substantial integration and one-off acquisition costs.

We are pleased with the progress being made with the tightly managed Harris and Covs integration programs and remain confident that the full benefits and anticipated returns of both these acquisitions will become fully evident in FY13.

As a result of the May capital raising, the balance sheet at 30 June 2011 was in a sound position with \$105 million cash on hand and a net debt position (excluding Floorplan) of just \$14 million.

On 1 July 2011, \$46.5 million of the cash reserves was invested to complete the acquisition of Covs and Harris which still leaves the company in a strong position to pursue further growth in an economic climate which appears to be presenting some well priced opportunities.

In the current financial year we are focused on the following areas:

- **Utilising the Group's size, experience and financial strength to drive future growth**
 - o AHG is the largest automotive dealer in Australia and operates a substantial logistics business. Our size, together with our experience and financial strength, puts AHG in a very strong position to be the key player in the consolidation of the industries in which we operate. This was evidenced by the acquisition of Covs and Harris transport at the beginning of FY12 and we are confident that attractive opportunities that meet our strict investment criteria will be secured in the automotive sector in the year ahead.
- **Developing and deepening our operational management and executive team**
 - o The success of our business depends on the quality of our people and this year we will be expanding and formalizing our training programs. We will be conducting a new specialized development program for our Dealer Principals, we will be training our high performance staff using Frontline Management and the Academy of Excellence program and we will be formalizing our wider internal training and apprenticeship programs. We will also be developing measurable objectives for our diversity programs.
- **Completing the successful integration of Covs and Harris**
 - o As I mentioned earlier in my presentation we are very pleased with the progress with the integration of these two acquisitions to date. The considerable planning put into the integration process is paying dividends and the success has encouraged us to develop a more formal integration model for future acquisitions in the automotive sector as well as logistics.
- **Continuing to address the operational performance of the Queensland business**
 - o Queensland is showing improvement this year and it is tracking to budget and is ahead of last year however there is still a lot to be done in Queensland to achieve the results we believe this business is capable of delivering.
- **Pursuing the Group's property strategy to release cash for future investments**

We currently have about \$70 million invested in properties supporting the Automotive division. Our strategy of purchasing property has allowed us to act quickly to secure and develop strategic dealership sites without the need to pay significant goodwill.

It is our intent that this substantial capital investment in dealership properties will be released in whole or in part on a structured sale and lease back arrangement. The capital released will then be allocated to buy further properties or to take advantage of other investment opportunities. We are actively talking to the market and assessing our options in relation to this strategy.

This concludes my introduction however before I handover to Bronte, who will provide you with an operational overview, I would like to take this opportunity to thank my fellow board members for their support and advice during the year.

We recently announced that Greg Wall has accepted a full time executive role and accordingly resigned from the Board. Greg has been a director since 2005 and has made a valuable contribution to the Company. We

wish Greg well in his new position and thank him for his contribution. As a result of Greg's departure, Mike Smith has been appointed as Chairman of the Audit and Risk Management Committee.

We expect to appoint one or two new board members in FY12.

I also express my congratulations to Bronte and all of AHG's staff who continue to work hard to drive the operational performance of the business.

As there are no further questions I will move on to the business of the meeting.

The annual report of the Company has been posted on the AHG website and distributed to those shareholders who have elected to receive a copy. Limited copies of the annual report are available on the table at the back of the room if you would like one.

This year's annual report contains additional information about AHG's operations that was previously contained in the shareholder review report which has been discontinued.

The financial report for the year ended 30 June 2011 and the accompanying directors' declaration and reports of the directors and auditors have been received by shareholders and they have been given the opportunity to consider its contents.

The Corporations Act provides that shareholders be given the opportunity to submit written questions to the auditor via the Company or the share registry 5 business days prior to the AGM.

No written questions were received but I now invite you to ask questions of Mr Glyn O'Brien of BDO on the conduct of the audit of the full year accounts.

Are there any questions for Glyn or myself?

RESOLUTIONS

As there are no [more] questions, we shall proceed to the resolutions.

As explained earlier, discussion and voting on Resolution 1, Adoption of the Remuneration Report, will be deferred to be the last item of business considered at today's meeting.

Resolution 2 deals with the re-election of directors of the Company.

Resolution 2.1 is the re-election of Mr Peter William Stancliffe who retires by rotation.

Mr Stancliffe was appointed as a non-executive director on 25 November 2005. Mr Stancliffe has over 40 years' experience in the management of large industrial companies both in Australia and overseas and has held various senior management positions, including Chief Executive Officer.

He has extensive experience in strategy development and a detailed knowledge of modern company management practices. Mr Stancliffe is a graduate of the MIT Senior Management Program and the AICD Company Directors' Course. In addition to his listed company directorships – Hills Industries Limited and Korvest Limited – he is a director of Harris Scarfe Pty Ltd.

The Board of directors (excluding Peter) unanimously recommend you vote in favour of his re-election.

Resolution 2.2 is the re-election of Mr Giovanni (John) Groppoli who retires by rotation.

Mr Groppoli was appointed to the Board on 4 July 2006. Mr Groppoli was a partner of national law firm Deacons (now known as Norton Rose) from 1987 to 2004 where he specialised in franchising, legal compliance and corporate governance. He was Managing Partner of the Perth office of Deacons from 1998 to 2002.

Mr Groppoli left private practice in 2004 and is currently Managing Director of Milners Pty Ltd, a leading Australian brand marketing group specialising in premium homeware products, and Aviva Optical, an importer and national distributor of optical products and accessories.

Mr Groppoli is a director of public unlisted entities Retravision (WA) Limited and Electcom Limited which manage and service the Retravision, Westcoast Hi Fi and Fridge & Washer City retail brands in WA, SA and NT.

Mr Groppoli is also a member of the Remuneration and Nomination Committee.

The Board of directors (excluding John) unanimously recommend you vote in favour of his re-election.

We now turn to **Resolution 1** which deals with the adoption of the Remuneration Report. As previously noted, the vote on this resolution will be conducted by way of a poll – not by show of hands.

The Corporations Act requires that a resolution that the remuneration report be adopted must be put to vote at the Company's annual general meeting. The vote on this resolution is advisory only and does not bind the directors of the company.

However, the Board is obviously sensitive to the views of our shareholders and will take the outcome of the vote into account when reviewing the Company's remuneration practices and policies.

The remuneration report is set out on pages 40 to 52 of the 2011 annual report. The report includes information on fees paid to directors and salary packages paid to the MD and other Group Key Executives, including any eligible Short Term Incentive or STI and Long Term Incentive or LTI benefits paid and an explanation of the performance hurdles attached to those benefits.

AHG experienced some challenging market conditions in FY11 and while it did deliver a solid operating result the operating EPS was below the performance hurdles applicable to the MD salary package. As a result his STI was reduced by \$500,000 which left his take home cash benefit about 19% down on the FY10 figure.

The same principle applies to all STIs. If specified performance hurdles are not achieved the STI is not paid.

On the LTIs, all senior executives including the two executive directors are eligible to participate in the AHG Performance Rights Plan, which has shareholder approval. The vesting of these rights will be subject to meeting certain specified performance criteria. No performance rights were issued for the year ended 30 June 2011, although the Board is considering issuing rights to some senior executives in the current year.

Recognising the importance of having incentive schemes focused on long-term shareholder returns, in 2009 the Board implemented a more transparent LTI scheme for the Managing Director. This was detailed in the remuneration report in 2010 and explained by the former Chairman to shareholders in some detail at last year's AGM. The Managing Director's 3 year performance rights remain unchanged from last year, and the relevant details are again disclosed in the Remuneration Report for FY11.

There has been no change to those LTI rights and none have vested, however at 30 June 2011 they were on track to vest at the end of the 3 year performance period. The Board certainly does hope these rights become fully vested as that will mean the performance hurdles have been fully achieved over a 3 year period.

We also note that directors' fees relating to non-executive directors remain unchanged for the 2012 financial year ahead.

AHG's most critical asset is its people and the Board recognise the need to incentivise, motivate and remunerate fairly at a level which recognises salary levels paid in comparative industries.

We believe the remuneration paid to our executives is reasonable, recognises the expertise required in executive positions, and is in line with the level of salaries paid in comparative companies and in our industries.

Finally, we note that this is essentially the same remuneration structure as FY10 which received the support of 99% of shareholders at last year's AGM and this year's resolution has the support of most of our institutional investors.

As Chairman, I intend to vote all undirected proxies in favour of this Resolution 1 in accordance with my stated voting intentions outlined in the Notice of Meeting.

*Formal poll procedure on Resolution 1 to be completed and the results of the poll announced to the meeting.

CLOSURE

That now concludes the formal business of the meeting.

I would like to close by saying that as a Board we are confident in the Group's future and committed to driving shareholder value.

I thank you for your attendance here today.

I now declare the meeting closed.

-ends-

About AHG

Automotive Holdings Group Limited (ASX: AHE) is a diversified automotive retailing and logistics group with operations in every Australian mainland state and in New Zealand. The company is Australia's largest automotive retailer, with its major operations in Western Australia, New South Wales and Queensland. AHG also operates the Prestige Hino truck dealership in Dandenong, Victoria – one of the largest in the country, and a leading Toyota dealership in Melbourne.

AHG operates logistics businesses throughout Australia through subsidiaries Rand Transport and Harris Refrigerated Transport (transport and cold storage), AMCAP (motor parts and industrial supplies distribution), Cova (motor parts and mining supplies), VSE (vehicle storage and engineering), Genuine Truck Bodies (body building services to the truck industry), and KTM Sportmotorcycles (motorcycle importation and distribution in Australia and New Zealand).

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