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GUD Holdings Limited shareholders have long expected operational improvement in the Melbourne-based manufacturing operations of the Filtration Division. Have the productivity improvements in May and June been sustained?

CEO Ian Campbell

Yes. Production is now stable and predictable.

Since the plant was installed in 1998, monthly average output has been unacceptable. We have now improved every step of the production process.

There are further opportunities for improvement. We've ordered end-of-line packaging equipment that will lift productivity and reduce costs further.

Other changes have helped. Inventory has been reduced. Production runs are longer. We plan and co-ordinate better with the New Zealand operation.

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Have you reduced labour costs in the Melbourne plant?

CEO Ian Campbell

Yes, but there's scope for further reductions.

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What rate of output are you achieving?

CEO Ian Campbell

The plant is now running at around 75 percent of its operational capacity.

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What target EBITA margin is achievable within the Filtration Division?

CEO Ian Campbell

Last year, the Filtration Division, which includes New Zealand, the Wesfil import business in Sydney and our Melbourne plant, achieved a 7.4 percent EBITA margin.

Although we have some concerns about a softening market in the second half, we should be able to exceed the FY2000 margin level.

Longer-term returns will, to some extent, depend on the Australian dollar and the relative competitiveness of imports, but 12 percent is a target we will stretch for.

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Filtration Division profits have declined each year since 1996. Is it likely shareholders will see profit improvements this year?

CEO Ian Campbell

Certainly in the first half. The second half to June is less clear due to economic uncertainties but we are pleased with progress to date through our improved efficiencies.

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The Wesfil business is Australia's largest importer of automotive filtration products. Have you been hurt by the lower Australian dollar?

CEO Ian Campbell

We employ some fairly prudent hedging policies that have helped protect us. But, Wesfil has seen some new entrants in the re-seller market and margins have been eroded slightly.

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GUD is both a significant importer and manufacturer in most divisions. What impact has the weak Australian dollar had on the group?

CEO Ian Campbell

The Sunbeam appliance business is most exposed to the dollar fall but again, our hedging policies have given us a degree of protection. However, margins have come under pressure as some competitors have absorbed the impact of the lower dollar.

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In 1999, unfavourable weather conditions reduced demand for Victa lawnmowers. Have sales been better this year?

CEO Ian Campbell

Sales of Victa lawnmowers have been excellent. Unlike appliances, lawnmower sales did not suffer post GST in July and August. They were strong months. Sales in September were slow due to the Olympic Games but we've seen a surge of activity in November and December. Victa lawnmowers are well ahead of the same period last year.

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Would you attribute that entirely to the weather conditions?

CEO Ian Campbell

Obviously the favourable grass growing conditions have helped, but we've also introduced a new range of two-stroke models and also a new range of Briggs & Stratton four-strokes. Both ranges have sold very well.

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Have Sunbeam appliance sales been weaker due to the slow-down in consumer spending post the GST and throughout the Olympic Games?

CEO Ian Campbell

There is no question that the market was soft and sales were hard to get immediately after the GST. July, August and September were slow.

Since the Olympic Games, Sunbeam sales have recovered. Sunbeam should do well this Christmas. New models within our traditional product range are in demand, as is our new category of personal care and therapeutic products.

We placed a catalogue of Sunbeam products with the December issue of 'Women's Weekly' and we expect significant pull-through during the Christmas and post-Christmas period.

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We note in the USA financial press that Sunbeam Corporation USA are not performing well. What impact does this have on Sunbeam Australia and New Zealand?

CEO Ian Campbell

Sunbeam Australia and New Zealand are wholly owned by GUD Holdings Limited. We have a commercial arms length relationship with Sunbeam USA, where we have designed product for them on a royalty basis, but that is the extent of our involvement with them.

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Last year, the Davey pumps business performed strongly with EBITA up 25 percent to \$5.8 million. Is the division continuing to grow?

CEO Ian Campbell

Davey is behind last year. Demand for small domestic and industrial pumps has been patchy. Wet conditions in NSW and Queensland have hurt sales. Pool building activity and therefore demand for pool pumps has been quiet since the GST was introduced in July.

Exports remain reasonably strong within Davey. I would expect better results across Davey next year.

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Will the Lock Focus Division suffer from the slowdown in building?

CEO Ian Campbell

Lock Focus has seen signs of a slow-down in the building sector with some of our customers reducing demand for window locks and garage door locks. But, we sell into a range of markets and are not overly dependent on the building trade. Lock Focus should have a steady year.

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Last year, net debt fell from \$80 million to \$67.9 million and operating cash flow rose from \$13.5 million to \$29.9million. Is this trend continuing?

CEO Ian Campbell

Yes. Our internal budgets are certainly for a lower closing debt than last year and we also expect to generate a higher rate of cash than we did last year.

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Is a share buy-back of up to 5 percent of issued capital still likely next year?

CEO Ian Campbell

We are on track to consider that in calendar 2001.

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What is the profit outlook for the group?

CEO Ian Campbell

Sunbeam Victa and Filtration, our larger divisions, have performed reasonably well leading into Christmas. Davey is behind our expectations due to weaker demand and Lock Focus is steady.

The outlook in the second half is less clear as confidence in the market place has suffered following weaker trading after the GST, higher interest rates, higher petrol prices and the lower dollar. Our internal targets are for an improvement over the prior year but economic uncertainties have clouded the outlook.

One certainty is that we will continue to seek operational improvements in all our businesses. The management culture within GUD has changed and the focus on cash value added principles should continue to strengthen the group.

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Thank you Ian. We look forward to our next Open Briefing with GUD Holdings.

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