



GUD Holdings Limited

Managing Director's Review of Operations

48th Annual General Meeting

Wednesday 19th October 2005

Plaza Ballroom

191 Collins Street

Melbourne

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Good morning ladies and gentlemen.

Today I would like to talk to you about each of our businesses and describe how we believe they are currently positioned, and outline their strategies for growth in this financial year.

I would like to start with Victa, because as we advised during last year, this was the business that provided the most difficult management challenges, and was the principal reason our profits were below the levels of the prior year.

Over recent years, we have implemented a number of initiatives to both reduce Victa's cost base, and to revamp its product range. We relocated from the Campsie factory, to a modern facility with a much lower fixed cost base. We fundamentally changed the business model, from being a heavily vertically integrated manufacturer, to a source, assemble and distribution business..

Simultaneously, we invested in revamping the entire product range, which was looking tired and in need of a new and fresh design.

These activities were essentially completed with the launch of the Tornado steel-based model range in July 2004. We were expecting a strong result from Victa, on the basis of our product range revamp, and a return to more normal climatic conditions.

What we didn't expect, to the degree that it occurred, was the success of the sub-\$300 entry price point mowers sourced from low cost suppliers in China. There was not just one low cost entry last year – six arrived during the course of the season, placing substantial competitive pressure on local manufacturers. With broad distribution, and despite little brand equity, and as it has turned out, with poor quality, these products made substantial market share gains. The market was also subdued in the first quarter due to lack of late winter and early spring rains.

At the same time, a major customer in New Zealand made the decision to cease ranging mowers, and we were left without a viable alternative with which to recover the lost volume, in the short term in that market.

Once we were aware of the potential impact of these circumstances, we advised the market of our changed profit outlook, and we adopted strategies to confront the challenges.

Although we have reduced the fixed cost base considerably since the relocation from Campsie, it became apparent that our product cost was still too high. To remain competitive, and to continue leading this market, we needed to reduce

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our costs further, and the only viable solution to this challenge was to source from lower cost, offshore suppliers. In other words we had to access low cost components and/or complete mowers to remain viable.

What we have done is a combination of both. We are working toward sourcing a complete mower as our offer in the opening price point segment, and we are importing a range of components that we are using in our more fully featured models. Throughout this process, our intention has been to ensure that we retain the values and quality that have stood behind the Victa brand's 50 year heritage, while enabling us to market products that are price competitive.

The results to date have been pleasing. Victa has sold considerably more mowers this year than for the same period last year. Its market share has begun to grow after declining due to the competitive pressures last year, and its financial performance is much improved.

Additionally, we have gained new distribution in New Zealand and our performance in that market, is well ahead of last year.

We believe that we have confronted the competitive challenges in the lawnmower market, and although much remains to be done, we have a stronger business as a result. With reasonable seasonal conditions over the balance of this spring Victa should be a strong profit contributor to the GUD group this financial year.

Turning now to another business in our Consumer Products segment, I would like to talk about Oates for a minute. As you will be aware we purchased this business at the start of the current financial year. Clive has given you a brief description of the business and why we liked it, and I will expand on that a little.

Oates is a business with a blend of manufactured and sourced products, with a terrific brand franchise both with consumers and professional cleaners. It offers the potential for us to assist it in bringing new products to market, and to streamline its operations.

We have now had experience with this business for just over three months and it is becoming apparent that there are many areas of opportunity, both in organic growth and in cost improvement.

You may have read in the press that we experienced the departure of two executives following our purchase of the business. This is not an uncommon event in takeover situations, and often it provides the opportunity to bring in fresh ideas.

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We have filled these vacancies with competent, experienced executives who bring new skills and a different perspective to the challenges facing the business.

We will assist Oates to accelerate its new product plans, and we are already instilling in the business, some of the GUD Group's operating philosophies, including a heightened focus on occupational health and safety.

Oates is a well run business to which GUD can add value. It is the major player in the cleaning hardware market, with the potential to grow profits and returns over the next few years.

The third business in the Consumer Products segment is, of course, Sunbeam. Following the closure of its New Zealand electric blanket factory about a year ago, Sunbeam now imports its complete product range from suppliers located predominantly in China.

Sunbeam covers all categories in small appliances, and has developed a strong product development culture and process. It is our biggest single business, and in Australia, is the clear market leader.

In recent years we have grown Sunbeam through entering new markets – electric heating was one, and through small, complementary acquisitions – Microfurnace and Emjoi in particular. At this stage our leadership position in Australia is not replicated in New Zealand and we are working to improve our brand position in that market.

Although retail conditions in Australia remain tight, especially as fuel prices have risen substantially in recent months, we have a strong new product offering for the forthcoming Christmas period, and this has been well received by retailers.

Included in this new product array are the following.

A new iron – the Accura Digital Resilium – incorporating world first digital technology, including a digital thermostat, an LCD screen, twin element format and low temperature steam feature.

We are also bolstering our personal care range with a new Salon Technique, wet to dry hair straightener. This product incorporates Ionic technology that is a primary feature of Sunbeam's hair dryer range, as well as having state-of-the-art ceramic plates and heating elements.

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In our traditional kitchen-related products we have launched a Café Series food processor, that complements the other leading edge designs in this family. Additionally, we have developed, in conjunction with Australia's leading barista, an innovative twin thermoblock espresso coffee machine, also positioned in the Café Series family.

With Sunbeam we have a unique, market leading consumer brand. Our future growth activities will be centred around maximising the value of the brand through innovative, leading edge products, incorporating new technologies and materials.

Our second largest business segment is Water Products, comprising the core Davey pumps business, Spa-Quip, which we acquired in April 2004, and Contamination Control, which we purchased a year later.

As Clive commented, water has become a topical industry internationally, and with this stable of businesses we are well placed to generate growth from emerging markets for water related products, in Australia, New Zealand and in other geographic regions where Davey has an established footprint.

Spa-Quip is a prime example of this. This business, which supplies components such as heaters, blowers, controllers and pumps, to manufacturers of spa pools in Australia, New Zealand and Europe, is trading in line with the expectations we had at the time of the acquisition. We are in the process of implementing the post-acquisition plan, and this has resulted in cost savings through streamlining the factory and outsourcing minor operations which were not critical to maintaining our competitive advantage.

We have commenced merging some functions with Davey, but are cognisant that we need to retain Spa-Quip's unique image in its markets.

After some changes we now have a settled management team, who are focused on the future growth opportunities, that exist in this industry internationally.

Similarly, although it is only early days, Contamination Control is trading in line with our pre-acquisition expectations. We have installed our own management team who are now just understanding the business and formulating their plans for the future. We have introduced some of the product range to Davey's dealer network in Australia with the result that sales are growing rapidly.

Like Spa-Quip and Oates, we will take our time to fully understand this business prior to making whatever structural changes are necessary, to position it appropriately for the future. The water treatment industry is, we believe, a

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good sector to be active in, and there is good growth potential emanating from this acquisition.

Our Security Products business, comprising GUD's first diversification acquisition in 1993, Lock Focus, continues to deliver solid, stable results. It, too, is active in product development and has recently launched a number of new products into its customer base.

Lock Focus has also been active in sourcing products to add to its range and recently secured the rights to the highly regarded Codelock brand of electronic door locks. We are expecting that Codelock and other internally-developed new product introductions, will propel this business to higher levels of sales and profitability in the current year.

Finally, a few words about the Automotive Products businesses. As you know we ceased manufacturing automotive filters in Australia in February this year, when we closed the Ryco factory at Tottenham in Melbourne. We still manufacture filters in New Zealand and Wesfil has a small, short run, air filter production line in Sydney.

But, like many of the other sectors we operate in, we were unable to manufacture cost-competitively in Australia and were, therefore, compelled to reconfigure the Ryco business to a sourcing model.

This has been a very successful transition. We have secured supply of quality filters, consistent with Ryco brand's position in the market, from cost competitive international suppliers. We have reinforced with our market place, the qualities that make Ryco a market leading brand, while adjusting our pricing to remain competitive. Throughout the transition, and as a consequence of it, the quality of profitability from the Ryco business has improved.

Simultaneously, we have invested in further growth for Wesfil, in expanding this business's geographic spread. During the 2005 financial year we evaluated the opportunity to open a branch in north Queensland, subsequently found premises in Townsville, and commenced operating in early July 2005. This operation will generate a positive profit contribution this year.

In closing, I want to reinforce the message I gave last year in relation to our operating philosophy. Our existing strategies, which are well articulated in the Annual Report remain our guiding principles.

We will be innovative and will actively develop new products. We will tightly manage our costs and run our invested capital base efficiently, and we will focus on cash generation. We will use the strength of our balance sheet to

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finance future acquisitions, that provide us the opportunity, to apply our recognised skills base to a broader range of activities.

All of these components are directed towards improving the Group's financial performance, and consequently, underpinning increased shareholder returns.

Prior to handing back to Clive to address the business of the meeting I would like to show you some examples of advertising covering some of the Group's recently launched products. Thank you.