



GUD Holdings Limited  
Chairman's Address to the  
49<sup>th</sup> Annual General Meeting

Thursday 26<sup>th</sup> October 2006  
Plaza Ballroom  
191 Collins Street  
Melbourne

In my address today I would like to cover a number of topics, commencing with a review of the 2006 financial year. I will also be talking to you about the Company's approach to corporate governance and I will conclude by giving you a perspective on how we think the current financial year will evolve in relation to the Company's results.

First, a brief review of the year ended 30 June 2006.

If we could encapsulate the year in one word, that word would be "challenging". The Australian economy entered a stage of uncertainty on a number of key indicators, specifically consumer confidence and increasing input costs - especially on raw materials and fuel.

Additionally, it has been widely reported that Australia is effectively two economies at present – the fast growing States that are heavily dependent on resource industries and the slower growing, but large population States, that form the basis of Australia's consumer society.

While these factors were influencing market conditions in Australia, our other key market, New Zealand, was hovering on the brink of recession, although technically this did not occur. However, it is fair to state that market conditions in that country were far from buoyant and trading conditions have been particularly competitive as a result.

This overview does not necessarily imply a direct correlation between these macroeconomic factors and GUD's performance. Our businesses are spread across a number of activity areas. The ultimate level of sales that we generate comes from a combination of market trends and our market share position.

One of the pleasing aspects of performance in 2006 was the growth in market shares which occurred across our activities.

Notably, Sunbeam has retained leadership in the Australian small appliance market for over 24 consecutive months and increased its share in 2006.

Additionally Victa, which in recent years had lost share to low priced Chinese imported mowers, regained some of that share by offering a targeted and more competitive product range. This occurred in a year when the number of mowers sold in Australia reached levels not seen for at least ten years.

Davey continued to grow its share in its heartland market segment – household water pressure systems for rural and regional consumers. It also enjoyed sales growth from new products introduced in recent years, especially those aimed at water conservation.

The message from these stories is that, although consumer confidence may be down and impacting on overall demand levels in the economy, through product initiatives, smart marketing programs, and by using our brands' strengths wisely, we are able to at least protect our position or, ideally, grow our businesses.

Counteracting these actions in all our areas of activity is the nature and extent of competition. All our businesses are subject to intense competition, in both our core home markets – Australia and New Zealand.

However, this is the nature of business today, especially as markets have been opened up through deregulation and as a result of globalisation. We are fortunate that in GUD we have a first class portfolio of both consumer and trade brands and, if we manage these correctly and effectively, the business has a solid platform to trade in future periods.

As we noted in our results announcement covering the 2006 year, we had strong revenue growth – 17% over the prior year – with excellent contributions from the Consumer and Water Products businesses. This growth came from a combination of new product introductions, recent acquisitions – specifically Oates and Contamination Control – and from the recovery in Victa mentioned previously.

GUD's trading profit, measured as Earnings before Interest and Tax, excluding one off items, improved 6%. The Trading Profit to sales ratio was 13.8%, down a little on the prior year, but still a satisfactory result for the types of businesses that we manage.

In relation to profit quality the performance of the automotive business should be highlighted. As you are aware the Australian operations of the Ryco business have been totally reconfigured in recent years. The business is now an importing and marketing operation, having ceased local manufacturing in February 2005.

We have experienced a marginal loss of revenue as a consequence of the cessation of manufacturing, but profitability is much improved in both absolute and relative terms. Trading profit grew from \$9.2 million prior to the business transformation to \$17.9 million in the 2006 year. This level of profit now represents 25% of sales compared with 12% five years ago.

Not all this improvement is attributable to Ryco Australia as the other businesses in the Automotive Segment have also contributed, but a substantial proportion is due to the Ryco transformation.

It should also be noted that in 2006 all business segments, with the exception of the security business, generated increased profit compared with the prior year.

We have spoken at some length in prior meetings about GUD's Cash Value Added - or CVA - measure of return. CVA is an economic return measure the Group adopted some years ago, to drive business performance improvement. Management's short-term bonus scheme is linked to CVA results.

We review our target CVA return benchmark each year and we ensure that the businesses are managed so that this hurdle is consistently bettered. In 2006 the GUD Group generated a CVA return of 15.7%, well in excess of the 10% weighted average cost of capital target.

Since we embarked on the various, substantial business reconfiguration activities, which we have described in detail at previous annual general meetings, CVA returns have consistently been above the cost of capital target; indeed, we have comfortably exceeded this target for the last five years.

We exited the 2006 financial year in a similar position to recent years. GUD's balance sheet remains in a strong position. This position coupled with the profit result and strong cash flows, enabled us to increase dividends to record levels – 60 cents per share fully franked, representing a 20% increase on the 2005 dividend payout.

As I have illustrated the 2006 year was challenging, but GUD remains in a strong position both operationally and financially to face the vagaries of changing business conditions in the current and future years.

I would now like to make a brief mention of corporate governance matters that the Board of Directors has addressed recently.

Initially I would like to state that the Board considers governance matters at a number of levels, and we are satisfied that our approach to governance, the emphasis we give it and the procedures and processes we have in place are entirely appropriate for a listed company of our size.

The major governance matter tackled in the 2006 year was a review of the Company's risk management practices. This issue needs regular comprehensive review due to the changing demands of regulators and markets. In our case it is especially relevant as we transform businesses from manufacturing to sourcing configurations. As a result of this review we are implementing a revised risk management process across our businesses.

In other areas of corporate governance the Board is satisfied that the committee structure we have had in place for a number of years continues to deliver the best value of efficiency and effectiveness for the supervisory operations of the Board.

Prior to handing over to the Group's Managing Director, Ian Campbell, for his review of each of the business operations, I would like to make some comments about expected performance in the current financial year.

We have completed the first quarter's trading and we continue to expect this year's EBIT to be in line with last year before automotive restructuring costs of \$3.5 million in New Zealand. This position is consistent with that held at the time of our annual profit announcement.

This year we will have a contribution from the Monarch Pool Systems acquisition, which was completed on the first day of the current financial year and we expect an improved contribution from Oates.

It is difficult to assess how Victa will trade over the year as the climatic conditions do not appear favourable for an extended mowing season in the major states. Having said that, in the first quarter Victa has traded well above last year on the strength of its focused product range and improved retailer listings.

The Davey pumps business usually performs well in dry years and we have seen evidence of strong trading in the first three months, much of which has been generated by new products.

We expect further pressure from increasing costs, especially raw materials flowing into product costs. Moreover, we are concerned with the direction of the New Zealand dollar, and the effect a lower currency has on our results when translated to Australian dollars.

Our long term direction and focus have not changed. We remain committed to growing our businesses, through both new products and acquisitions. Additionally, we remain focused on generating increased shareholder returns, especially through our dividend policy.

I will now invite Ian Campbell to provide you with more details on each of the Group's operations.