



GUD Holdings Limited

Managing Director's Review of Operations

49th Annual General Meeting

Thursday 26th October 2006

Plaza Ballroom

191 Collins Street

Melbourne

Good morning ladies and gentlemen.

As is customary, I would like to talk to you about each of our businesses individually. Specifically, I will mention the highlights of their performance in 2006, update you on their current activities and detail our growth plans for the future.

Last year I commenced by talking about Victa – the business that provided the most management challenges in the 2005 financial year. It is pleasing to report, that due to the initiatives we took in 2005, Victa's financial performance in 2006 was much improved.

The principal challenge we faced at Victa, was new competition from imported, low-cost mowers. Our response to this included a number of actions aimed at reducing our product cost, including, establishing our own low-cost supply source. We now import components used in assembling high-specification mowers and we are also sourcing a fully built entry price point mower. This mower is a Victa in the full sense of Victa's essential brand qualities, which is able to compete in the growing economy end of the market.

As a consequence of our initiatives, we regained most of the market share lost in the prior year while also enjoying the benefits from a growing market in Australia.

Similar to many of our businesses Victa has been through a major transformation over the last five years – from being a heavily integrated manufacturing business to a sourcing and assembly business, focused on product innovation, competitive price positioning and brand value.

The future challenges for Victa remain similar to those we have faced recently – product cost, a changing market place structure and increased competition.

Additionally, we recognise that the place of the lawnmower in the Australian suburban context is changing, and we are reconfiguring our product offerings to

reflect evolving consumer demands. For example, this season Victa is launching a small range of electric mowers, that suit smaller backyards and meet consumer preferences for environmentally friendly products.

As Clive has alluded to, a major challenge, not just for Victa but for the whole outdoor equipment industry, is the impact of the protracted dry conditions being experienced across much of Australia, and the associated water restrictions. It is impossible to predict the how these influences will develop over the balance of the year but it is pleasing that Victa has reported a solid start to the year's trading.

Staying with our Consumer Products segment, which includes Sunbeam, Victa and Oates, it was a disappointment that the Oates business we acquired early in the 2006 financial year, did not perform to our expectations. The sales growth we expected at the time of the acquisition did not eventuate, principally due to delayed new product introductions from Bissell, the supplier of carpet care equipment represented in Australia by Oates.

As we have experienced with all the businesses we have acquired over the last three years, we needed to invest in establishing processes and procedures consistent with those required by a significant public company, and these take both time and money.

Since acquiring Oates the business is more tightly managing its debtors and this has resulted in the release of substantial cash during 2006. Additionally, we have implemented a more active make versus buy program, to reduce product cost and this is being accelerated in the current year.

Consistent with all our other businesses, we encouraged Oates to develop and put in place, a structured new product development process. New product priorities are now well understood and planned and the outputs from this process should become evident in the market place in the near future.

There are still many challenges with the Oates business, but these are challenges similar to those we have faced in recent years elsewhere in the Group. We will improve this business. We have the skills in GUD to do so and we expect, in the future, that Oates will generate the level of return expected at the time we acquired it.

The last component of our Consumer Products business is Sunbeam, Australia's leading brand of small electric appliances. The highlight of Sunbeam's performance in 2006, was its market share growth in an increasingly competitive small appliance industry. Through its focus on new products and the reinvigoration of its core product ranges, Sunbeam has not only maintained market leadership but grown share. Its market share is now nearly twice that of its nearest competitor in the Australian market.

The transformation of the Sunbeam product range in recent years, from something that was quite staid and conservative, to now being contemporary, innovative and stylish, is a significant achievement and it is obviously connecting with consumers, as evidenced by the market share growth.

We continue to reinforce Sunbeam's market leadership position with new product activities. On average we launch around 70 new products each year, these being a blend of completely new products into new categories or revamped products in established categories.

The highlight of this year's new products is Sunbeam's inaugural foray into gas barbeques. Sunbeam has a solid position in electric grills and barbeques and it was logical to complement this offering with products in the large gas barbeque market.

Consistent with our approach in all other categories, we have not entered with me-too products; rather we have done a substantial amount of research into cooking performance and have launched two products that offer significant performance advantages over current products.

In addition to its product-based initiatives Sunbeam continues to be recognised by its retail customers, as the leading company in its industry, as evidenced by the numerous supplier-of-the-year awards bestowed over the last year.

The Sunbeam business is an excellent model that is working well and providing good returns. However, its industry is increasingly competitive and we have been experiencing growing cost pressures from suppliers of products and from logistics service providers.

To minimise the impact of these pressures we will continue with our product strategies and we need to identify and enter new markets.

Our second largest business segment is Water Products, which generated just under \$100 million of sales in 2006. This business has grown rapidly in recent years – from \$57 million sales in 2001. Trading profit has increased from \$4.5 million to 13.9 million over the same period.

This growth has come about from both internally generated new sales and from acquisitions.

You will be aware that in early July this year we acquired a further business that is enfolded into Water Products – the Monarch Pool Systems business based in Perth, Western Australia. Monarch will provide a further boost to the scope and scale of the Water Products segment.

Our intention with this segment is to simplify it into three, customer-focused activities. The first will be centred on domestic and rural water supply and treatment, an amalgamation of the traditional Davey business and the acquired Contamination Control.

The second will be focused on spa bath and spa pool manufacturers – the amalgamation of Spa-Quip's and Davey's spa businesses, and the third will be centred

on Monarch's pool builder and pool shop distribution channels and swimming pool product offerings.

Let me dwell on the rationale for the Monarch acquisition for a moment. We acquired Monarch because it met our established and well publicised acquisition criteria.

It is a leading business, with a good brand, in a market segment in which Davey had a relative minor position. Monarch has a competitive position concentrated around salt water chlorinator technology, hence a major point of difference from Davey's position. Financially the business met all our tests and the business had a good track record of growth.

We are expecting Monarch to make a significant contribution to both sales and profits in the current financial year.

In the traditional Davey business, changes are emerging in the pattern of sales. Products that have been developed in recent years to satisfy needs in emerging water conservation, markets are starting to generate sales momentum. In particular the RainBank product, used in rainwater harvesting applications, is experiencing rapid growth. Interest in this product and its technology is also growing in offshore markets.

We expect further growth in water conservation products and are active in both developing and seeking products that add to the range in this emerging market.

Having owned Contamination Control for eighteen months we are now planning to operationally integrate this business with Davey. The two businesses service a similar dealer network in New Zealand and the product ranges are, in the main, complementary. This will enable us to provide a more coordinated representation to dealers and to offer integrated water treatment solutions to consumers.

Spa-Quip, the dedicated spa bath and pool products business, is trading well. It is benefiting from internal efficiency improvements as well as sales growth, especially

in export markets. The integration of Davey's spa business into Spa-Quip has been smooth, with benefits for customers, especially those that are active in both product types.

We believe that the water products businesses in our portfolio provide a strong platform for future sales and profit growth. Water has emerged from being a peripheral issue to being mainstream. It is having unprecedented coverage in the press and other media and will represent substantial opportunities for businesses in the sector in the coming years.

We now have a quality collection of water-related businesses. When we fully implement the Water Products structure I described earlier we will have three focused businesses in the water industry which will have substantial opportunities to share technology, know how and resources. They will be well positioned to grow sales and profits and make a substantial contribution to GUD's overall growth.

Turning now to the Automotive Products businesses. As Clive has already mentioned, we have seen substantial improvements in the financial performance in this segment over the last five years. We successfully implemented an extensive transformation of the Ryco Australia business at a time when the market was becoming increasingly competitive and when demand has been negatively influenced by increasing fuel costs.

Following the success of Australia's shift from a manufacturing to a sourcing business model, we are adopting a similar strategy in New Zealand. Manufacturing at the Ryco plant in Auckland will cease by the end of this calendar year, with alternative sourcing programs identified now in the process of being implemented.

A restructuring cost of \$3.5 million Australian dollars will be reported in the first half year's results. Consistent with our experience in Australia, we expect a rapid payback from this restructuring.

The automotive business has, historically, been different from the other business we operate in the sense that new products have not been a key feature of the business's direction. By supplying predominantly to the aftermarket, the focus of the business has been on ensuring the range of part numbers offered to the market reflects the applications, which, in turn, reflect the make up of the automobile population.

That focus has now changed and in 2006 the Ryco business launched its first new product range for some years. Recognising the increasing incidence of air conditioners in cars and the need to replace filters in these units, a range of cabin air filters was sourced and launched early this calendar year.

Similarly, Wesfil, which has been importing filtration products for many years added to its array of automotive parts by sourcing a range of brake pads. Wesfil now offers its reseller customers, an assortment of replacement parts including fuel and air filters, wiper blades, timing belts and, now, brake pads.

Our other business segment is Security Products, comprising the Lock Focus business. As I stated last year at this meeting, and probably in prior years, this business delivers consistent, stable results. It operates in a niche market segment and has replaced lost demand from original equipment customers relocating offshore, with sourced product ranges into other niche market segments.

2006 was the first full year that Lock Focus benefited from the distribution of the Codelocks brand of electronic security products. Sales are growing steadily, and the inclusion of this agency line in its portfolio complements the business's the other products offered to locksmith customers.

Similar to all GUD's businesses, Lock Focus is actively investing in new product developments to enhance its value to customers and to protect its strong market position.

Although we appear to have a disparate collection of businesses in our portfolio, they are similar enough that we can apply consistent management disciplines across all businesses.

The essential components of our corporate direction, that is those things we do across our individual businesses, are these.

First, we ensure that each business remains cost competitive in its industry. This requires active management of make versus buy economics and the skills to enact restructuring programs if they are necessary for a business's long-term survival.

Next, we instil an innovation culture, focusing on new products, processes and technologies. New products will drive revenue growth and, when coupled with the strength of GUD's brands, should ensure margin protection.

Then we apply the disciplines of continued tight cost controls, consistent application of CVA principles and strong balance sheet management.

Finally, we look for growth through acquisitions. The Group's balance sheet strength allows further new lines of business, or complementary acquisitions to be effected. The results of sensible, bolt-on acquisition activity are apparent in the financial performance of the Water Products business.

We have consistently followed and applied these fundamental tenets for some time now. We believe that by managing all four simultaneously in a coordinated fashion, the quality and performance of our businesses will be improved. Consequently, shareholders will be correspondingly rewarded.

Thank you.