



GUD Holdings Limited
Chairman's Address to the
50th Annual General Meeting

Friday 2nd November 2007

RACV Club

501 Bourke Street

Melbourne

In today's address I would like to communicate a number of key items. First, I will provide you with a brief review of the 2006/07 financial year. Then I will describe progress on each of the elements of the GUD group's strategic direction and, finally, I will make some comments on the outlook for the current financial year and our direction beyond that.

First, a brief review of the year ended 30 June 2007.

Trading conditions for our businesses in 2006/07 displayed similar characteristics as seen in the previous year. All the industries we operate in exhibited extremely competitive conditions and this was manifested principally by pressure on gross margins.

Cost increases on raw materials, reflecting the ever increasing demand for commodities driven by economic growth in China and India, especially, were evident through the year.

Compounding these was the damaging impact of the severe drought experienced in our home market. This affected both demand for mowers and consumer confidence in rural and regional Australia, where we have a substantial base of business, spanning pumps and other water products, automotive filtration and small household appliances.

Although our financial results were slightly below the levels of the prior year, all our market leading brands again managed to either retain or grow market share in these trying conditions. Sunbeam was a standout in this respect.

Already a clear market leader in Australia, Sunbeam further consolidated its position in the market due to an exciting new product line up and continual revamping of established product lines.

In New Zealand, major market share gains were experienced, as a result of targeted activities on a category-by-category basis. In that market the gap between Sunbeam and the long-established market leader has been closed considerably.

There is no doubt that GUD owns and manages one of the Asia-Pacific region's premier portfolios of brands. These brands are well established, have considerable heritage and equity with consumers and are a fundamental underpinning for our success in the future. Without such strong brands, and I specifically refer to Sunbeam, Victa, Davey, Ryco, Wesfil and Oates, we would not be as well placed to counter competitive threats such as lower priced, imported products and products sourced directly from third party suppliers by our distribution channel customers.

Our brands are well respected by consumers and customers alike and this reality provides GUD with a powerful competitive platform for the future, as

long as we manage our brands effectively and ensure that they maintain relevance to these constituencies.

Turning now to some specific highlights of the last financial year.

Group sales increased 12% to \$519 million, driven by growth in our Water Products business. Sales in this business were \$149 million, a 54% increase on the prior year. Both acquisition activity and new products contributed to this impressive outcome.

The Water Products business recorded an earnings before interest and tax increase of 29% on the prior year, reflecting those factors just mentioned, in addition to the impact from positive seasonal conditions.

During the first week of the 2006/07 year we completed the acquisition of Monarch Pool Systems, a Perth-based developer and manufacturer of equipment for swimming pools. This business was integrated into our Water Products activities from a management perspective and the financial results were below plan, principally due to the impact of the drought, especially in Queensland, Australia's largest market for swimming pools.

The major disappointment for 2006/07 was Victa. This business has undergone substantial change in recent years to position itself to be cost

competitive whilst retaining operational flexibility to respond to changing market conditions.

Victa traded well in the first quarter, as I reported in my address to you last year. But the drought really curtailed demand from October onwards and Victa struggled to achieve its sales and profit objectives for the balance of the year.

It is a credit to the Victa management team that they did everything to manage the controllables inside the business; but there's not a lot that can be done to generate demand for a product range that is dependent upon grass growing, when the major market is in the grip of the worst drought in a long time.

Finally, in relation to the previous financial year, our objective to continue delivering improved returns to shareholders was reflected in the increase in total dividends to 61 cents per share, fully franked, from 60 cents in the prior year.

When coupled with the 16% increase in the share price over the year – from \$7.90 to \$9.18 – this represents a satisfactory return, especially when viewed in the context of the prevailing competitive conditions.

Dwelling on the share price for a minute, the interest from new offshore investors resulted in the price jumping to \$11.70 in the period around our annual results announcement, that is July this year. Since that interest

materialised the price has remained in the range of \$10 to \$11, well above the levels experienced at the close of the 2006/07 year.

The second theme for my address today is some commentary on the four components of our strategic direction, namely:

- A focus on cost competitiveness across the group.
- An innovation culture, focusing on new products and technologies.
- Growth through sensible acquisitions, and
- Consistent application of our cash value added principles and disciplines.

On the first of these – cost competitiveness – the major recent manifestation of this fundamental underpinning of our activities was the decision to close our automotive filtration manufacturing plant in Auckland, New Zealand.

Following the outsourcing model put in place at Ryco's Australian operation it was no longer feasible to operate a production facility in New Zealand, especially as all the preparatory work in relation to identifying and establishing reliable supply sources in a number of countries had been completed prior to Australian production ceasing in the previous year.

The New Zealand plant was closed in December 2006 and warehousing and administration operations have been relocated to a facility more appropriate to a source and sell business.

It is important to point out that in making this business transformation one of the critical factors used to identify potential suppliers is their ability to deliver product that meets Ryco's equivalent-to-genuine quality proposition.

The Ryco brand is market leader in Australia and New Zealand because it historically made products for the aftermarket that met the quality standards of the original equipment being replaced in car servicing applications. Ryco maintains the industry's only engineering capability enabling it to establish quality standards for new part numbers and quality assure its outsourced product range.

The continued strength of the Australian dollar, coupled with a review of our competitive cost position, led to the decision announced early in the current financial year to similarly transition the Oates cleaning products business to a design-develop-source-market-sell business structure, similar to that in place at Sunbeam. Oates currently operates manufacturing plants in Melbourne and Perth and both of these will be closed in the current financial year. The process of identifying and qualifying offshore suppliers in a number of

locations including China and Sri Lanka, is well underway and progressing in line with our timetable.

This project will result in a one-off restructuring cost of just under \$6 million being incurred in the current financial year, with a rapid payback expected, in line with prior GUD restructuring activities.

The second platform of our direction each year is innovation. All businesses have active plans for new product development and introduction and recognise that new products and technologies are the key to future growth.

In 2006/07 a small sample of the new products introduced or those of recent years making substantial contributions to results include:

- Sunbeam's Innovo gas barbeques.

- Ryco's in-tank fuel filters, and

- Davey's RainBank water conservation system controller.

The last of these is worth commenting on further as it is a prime example of our approach to new products and how these ideas and concepts can take some time to deliver real results.

RainBank was developed four years ago in response to rain water tank customers requiring a device to manage water supply between mains and tank. RainBank incorporates a number of technological features that have the benefit of intellectual property protection and because of this RainBank is the benchmark product in a market that is now growing rapidly.

Davey's leadership in this new product category will be further reinforced when the second generation RainBank is launched later this financial year. This product represents an evolution of the original concept and will enable Davey to maintain a lead over competition in terms of technology, operational characteristics and cost.

The third platform to our direction involves acquisitions. We completed a number of significant acquisitions in recent years commencing with Spa-Quip in 2004, followed by Contamination Control and Oates in 2005 and Monarch Pool Systems in 2006.

All these businesses have contributed to GUD's growth but have not been without their unique integration challenges. We believe all are valuable additions to our business portfolio and it is fair to state that we have been frustrated in not being able to complete more substantial and transforming acquisitions.

The market for corporate assets has been extremely active with participants including companies in the same position as ourselves and private equity groups. Assets that have met our acquisition guidelines have been priced well beyond what we regard as reasonable, from which it is difficult to deliver the required returns.

We continue to search for complementary businesses to acquire as we certainly have an underlying strength in our balance sheet that would allow this activity to occur, with the right target.

Finally, a mention of our corporate-wide discipline involving cash value added principles. CVA drives much of our management decision making. It is an economic profit measure that embodies both profitability and investments by management.

Our target CVA return is derived from our weighted average cost of capital which is 10% after tax. This benchmark is reviewed annually to take account of changing equity and debt market conditions.

In 2006/07 our CVA return was well over the benchmark, at 14.8% and each one of our business segments exceeded the target. Indeed we have exceeded the target for the last six financial years, although not every business has met the target each year over that period.

However, by consistently surpassing CVA targets at the combined level, GUD is generating value for shareholders and this will be evident in a combination of increasing dividends and an upward trending share price.

Prior to handing over to our Managing Director, Ian Campbell, to provide you with an overview of each of our businesses, I will make a few comments on the outlook for the current financial year.

We have completed trading for the first four months of the year, but I can only comment on evidence from the first quarter, as October's results are not yet completed.

We have experienced a strong first quarter with every business trading above both budget and last year. With the impact from good Christmas trading, a favourable climate and a reasonable electric blanket season in 2008, we expect to deliver on our guidance of a 10-15% growth in earnings before interest, tax and restructuring charges, provided at the time of the 2006/07 results announcement.

Additionally, the prospects for dividend growth are also positive. The nature of our shareholder base has changed radically in recent years, now being dominated by individual shareholders rather than institutions, and consequently we place a strong emphasis on dividend policy

We recognise the value of fully franked dividends to our shareholders and have, I believe, employed the strategies and programs to ensure growing returns in the foreseeable future.

I now invite Ian Campbell to address you and describe more comprehensively aspects of each of the GUD group's operations.