



GUD Holdings Limited

Managing Director's Review of Operations

50th Annual General Meeting

Friday 2nd November 2007

RACV Club

501 Bourke Street

Melbourne

Thank you Clive and good morning ladies and gentlemen.

I would like to commence my review of operations by focusing on the Water Products business, the business we featured in the current Annual Report due to its standout performance in 2006/07.

As Clive noted, Water Products revenues grew 54% to nearly \$150 million, and earnings before interest and tax increased 29% to over \$19 million.

After Consumer Products, Water is now our second largest business by a significant margin. More importantly, organic and new product-led growth opportunities in the water industry are abundant, placing this business in a sound position to contribute to future improvement in shareholder returns for GUD.

The story in water has been multi-faceted. Growth has come from a combination of three factors. First, the three acquisitions we completed between 2004 and 2006 – Spa-Quip, Contamination Control and Monarch Pool Systems.

Second, new product developments and introductions including new ranges of multistage pumps, RainBank, the Torrium pump controller and the new technology, Silensor pool pump.

And last a growing market for water products, especially in emerging water conservation applications.

The traditional Davey business, has evolved from being heavily-reliant on its core, market leading, household water pressure systems product range, to having a diversified portfolio of products and technologies, that touch consumers in both metropolitan and regional areas, across a broad range of their daily activities.

Furthermore, the acquisitions have expanded the business's customer base to include more offshore business, reducing the traditional reliance on domestic climatic conditions.

Structurally, now that we have owned the acquired businesses for some time and have understood the nuances of their markets and operations, we are now able to move on integrating manufacturing and supply chain functions, and generating efficiencies as a result.

Apart from amalgamating Davey and Monarch State branches in Australia, the first major step in this direction is the merging of Davey and Contamination Control in New Zealand. These businesses serve a similar customer base, with products that are complementary. We are in the process of merging these businesses into one operational facility in south Auckland

and presenting a unified brand image to the New Zealand market – the Depend on Davey brand proposition.

Further opportunities to streamline manufacturing operations between Spa-Quip in Auckland, Monarch in Perth and Davey in Melbourne, are being evaluated along with opportunities to garner back-room efficiencies in finance and other support functions.

By mid-2008 all these businesses will go to market under the unified Davey brand, the brand that has the most relevance with consumers and which has strong positioning in its segment.

Further challenges for Davey include building a brand relevance with consumers in metropolitan areas, with products for emerging water conservation markets. These markets are developing rapidly in Australia, in response to Government initiatives aimed at reducing reliance on town water supplies, following the recent prolonged dry conditions. Davey led the way with RainBank, which Clive spoke about, and there are other emerging applications, such as grey water recycling, where cost effective, leading-edge technology will be required.

The portfolio of water businesses we own, positions us favourably to meet the needs of existing and emerging water products markets. Water is a growth industry world wide – indeed water is now being called “blue oil”, and due to

its unique climatic conditions, Australia should be at the forefront of technological developments. We expect our water products business, with its unique and credible “Depend on Davey” positioning, to be at the forefront of these developments in coming years.

Growth in the Automotive Products business is not as easy to generate as in water products. Automotive parts markets are being affected by improvements in technology, leading to reduced servicing, consequently lessening demand for service parts, such as filters. Countering these trends and offsetting them at present, is growth in the car population, and an increase in distances travelled.

Despite these major market influences, our Automotive businesses have performed satisfactorily, especially in the context of major business transformation activities.

From a position nine years ago of having four manufacturing plants spread between Melbourne and Auckland, the Ryco business has been transformed, albeit with significant investment, to a purely sourcing business. The last piece of this reconfiguration jigsaw, was the closure of the Auckland factory in December 2006, at a one off cost of \$3.6 million before tax.

The results of the transformation in Ryco are evident in the Automotive Products business's profit quality. The EBIT to sales ratio has improved from an unsatisfactory 9% in 1999 to 25% in the most recent completed year.

We now have an automotive business focused on the most common servicing part – filters, that serves the market through major trade suppliers, with the market leading Ryco brand, and the independent resellers and smaller operators in the industry, with the well known Wesfil and Cooper branded products.

Unlike Sunbeam, which almost totally relies in China for its products, we have been able to diversify the sources of our filter range, with suppliers located in Thailand, South Africa, Indonesia, South Korea as well as China. All these suppliers, are contracted to produce filters to the standards determined by both Ryco and Wesfil, ensuring that their respective brand standings, are not undermined by sub-standard product quality.

Finding new products in the automotive markets is a challenge, especially as our businesses are focused on the aftermarket, and are essentially copiers of originally-fitted equipment. However, there are new filtration applications emerging, including cabin air and in-tank fuel. Ryco has introduced a range of part numbers into each of these developing market segments in recent years. Simultaneously, it continues to ensure its core range covers all new applications.

Wesfil's real strength is in its geographic spread, enabling it to provide high levels of customer service in the demanding reseller sector. Wesfil goes to market with a broad range of automotive parts, in addition to its core filtration range. Wesfil will continue to compete in this market with its breadth of product range and its high level of service, emanating from its branch network.

Our Security Products business, incorporating Lock Focus, may be our smallest business segment, but it has delivered consistent financial performance over a number of years. This performance has been delivered through a combination of factory automation investments, leading to improved efficiencies, reduced labour costs, new product developments, and new sourced product lines.

Its performance in 2006/07 was pleasing in that earnings increased 6%, at a time when the business was subject to severe cost pressures on brass and zinc, especially.

Growth with new products aided in offsetting these pressures, particularly with Codelock electronic locks, for which Lock Focus gained the local distribution rights in the prior year.

Our largest business segment is Consumer Products, comprising Sunbeam, Victa and Oates.

Clive has outlined the factors behind Victa's performance in 2007/07, and I would like to talk about how we are repositioning this business to reduce its reliance on, essentially, one geographic market and one product type. Over the course of the last year, the Victa management team have identified a number of new products that provide different avenues for future growth. These include securing the distribution rights, to the battery powered Enviromower, to be re-badged as Victa Enviromower, meeting consumer needs for non-petrol powered mowers.

In addition Victa re-designed and launched a new model of electric-powered outside vacuum cleaner – the Victa Vac and Blow, with a petrol version to follow. This product's demand is not dependent on growing grass and it is autumn seasonal in its selling profile and should assist to balance Victa's activities across the year.

Also the business sourced and launched a range of Victa line trimmers, which have met with substantial success in the first few months they have been in the market.

All these activities have been undertaken, through recognising that the Victa brand has credibility on a broader range of powered garden products, than

just petrol mowers. An in depth understanding of consumer requirements for garden equipment, and Victa's place in fulfilling those needs, has led to a subtle repositioning of the brand to "Victa: Great Gardens Easy".

The focus for the product range now and in the future, is to make the task of garden maintenance easier for consumers. The current product range certainly delivers on this promise and all future products will be selected so that they reinforce this important consideration for Australian and New Zealand consumers.

Turning now to Oates, the cleaning products business we acquired in July 2005. Disappointingly, Oates did not perform to our expectations in 2006/07, due especially to on-going quality and supply issues with the Bissell carpet and hard floor cleaning equipment products. Additionally, conditions in cleaning products markets in grocery and hardware channels were extremely competitive and unsustainable.

This has led to three things. First, the decision to reconfigure Oates on a business model similar to Sunbeam, necessitating the cessation of local production, as detailed by Clive. The second impact has been some industry consolidation and rationalisation during the year.

Finally, Oates recently relinquished the local distribution of Bissell. This activity was effectively creating a distraction of effort away from Oates' core

products to this service-intensive and problem-ridden range. Bissell have established their own distribution in Australia and our business is now unencumbered and able to focus on what it does best.

Recently we also made several management changes aimed at refocusing the business and providing fresh direction and leadership. As a result Oates' financial performance tracked well ahead of last year for the first quarter of the current financial year. The business has a renewed sense of energy to tackle the significant restructuring challenges it faces during this year.

The business model at Oates mirrors that at Sunbeam. Utilising its strength in industrial and commercial cleaning markets Oates designs and develops like products for consumer markets. It is this position in the professional sector that gives Oates its uniqueness in the industry, and will provide the impetus for new product development in to the future. With its developing portfolio of qualified offshore suppliers Oates will be cost competitive with its existing and with new products

We are confident that with the operational changes occurring this financial year, and with the other changes noted, Oates will deliver much improved trading results this year and in years following.

Finally, some comments on Sunbeam, Australia's leading brand of small electrical appliances and a strong and growing number two brand in the New Zealand market.

Sunbeam continues to capitalise on its undoubted strengths in product design and development and its brand reputation. Its fundamental capability in appliance technology and know-how, was further evidenced in the launch of two gas barbeques in the spring of 2006.

Consistent with Sunbeam's philosophy of understanding consumer needs these products were launched after substantial product research, development and testing. This move into gas appliances is a recent first for Sunbeam, but shows the brand can move into associated products where it has relevance and validity in the eyes of consumers.

But this business is not solely focused on new product areas. It remains absolutely committed to refreshing its traditional products, including kettles, toasters, frypans and irons. This continual updating is not only style-related, it also spans new technologies and materials.

An example of the latter is the recent launch of Sunbeam's Ceramic Collection kettles and toasters, utilising the latest in ceramic materials technology to develop colour-coordinated and stylishly-designed contemporary appliances.

In a similar manner, the iron range has recently undergone a major feature and cosmetic upgrade. Performance across the range has been improved and the look has been updated with new colours, graphics and packaging.

Even though Sunbeam is the market leader in irons we cannot afford to have a static product range for too long and must invest in these types of upgrades on a continual basis. The same holds true across the breadth of Sunbeam's product offerings.

The outlook for Sunbeam is encouraging. Market share retention or further growth will be delivered by planned new product introductions. Additionally, recently commenced initiatives will have the effect, of improving Sunbeam's supply chain, and ensuring on-going product quality for this market leading brand.

Let me finish by reinforcing a point that Clive made during his speech, relating to our brand portfolio.

Sunbeam, Victa, Oates, Ryco, Wesfil and Davey form the basis of an unparalleled brand portfolio in our part of the globe. These brands, if carefully managed, maintained and developed, form the nucleus of our ability to compete effectively in the future. We recognise the value of brands, what they mean for us and what they mean for our consumers.

We intrinsically believe in their ability to provide the underpinning of superior shareholder return performance from GUD over the medium term.

Thank you for your attention.