



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

Thursday 22<sup>nd</sup> October 2009

RACV Club

501 Bourke Street

Melbourne

The 2009 Accounts and Annual Report have been distributed to shareholders and it is not my intention to provide a detailed description of what occurred in that year. Rather I will touch on some key issues that were of relevance to the performance of the GUD group's companies. These issues continue to be uppermost in the minds of both the Board and senior management.

Initially, however, I want to talk about the changes that have occurred at Board level.

In January this year Peter Thomas passed away. Peter served on the GUD Board since June 2002 following a distinguished management career with Holden. Since ceasing full time employment Peter served on a number of Boards including Pacifica and Melbourne Port Corporation and was a Councillor of RMIT University.

Peter made a substantial contribution to GUD's direction in the six and a half years that he was a Director, especially in areas he was passionate about – occupational health and safety and new product development. We miss Peter's gentlemanly approach and his depth of thinking across a broad spectrum of business issues.

Mark Smith and Peter Hay joined the Board in May this year.

Mark has had an extensive executive career in, predominantly, the fast moving consumer goods industry, with such well-known companies as Unilever, Uncle Tobys and Cadbury-Schweppes. Mark has embarked upon a career as a non-executive director and in addition to GUD serves on the Board of Toll Holdings.

Peter Hay has had a notable career in the law with Freehills. Currently Peter is a non-executive director with a number of Australia's leading companies including ANZ Banking Group and Alumina Limited. He is the current chairman of the Advisory Board of Lazard in Australia and is a member of the Australian Government Takeovers Panel.

We welcome both Mark and Peter to GUD and look forward to their considered contributions to the Board's decision making processes.

Finally, in relation to Board changes, Doug Curlewis has indicated that he will be stepping down as a Director of GUD from the end of this calendar year. Following a successful senior executive career in Philip Morris, Dulux and National Consolidated, Doug has been an active non-executive director at a number of Australia's leading companies including Pacifica, Nufarm, GrainCorp and National Foods.

Doug's contributions to GUD have centred on his areas of interest including branding and marketing, business strategy and customer service.

Doug has been a Director of GUD since March 2003 and after nearly seven years of active contribution to the development of the GUD group we wish Doug well in his post-GUD activities.

Turning now to matters that directly impact GUD's businesses, there is no need to over-describe the extent of the economic turmoil that has affected all our lives in the past thirteen months or so.

Like all businesses GUD has not been totally insulated from the effects of these events but, similar to the Australian economy, GUD went into this period in a strong financial position and has emerged relatively unscathed.

That is not to say there haven't been substantial issues confronting the businesses on a daily basis and perhaps the most difficult to manage has been the speed and degree of change, especially in the level of the Australian dollar against the US dollar.

GUD is predominantly an importing business. Although we still maintain manufacturing capacity at Davey and Lock Focus the majority of the final products we sell are manufactured offshore to our specifications and purchased from suppliers in, mainly, US dollars.

In late 2008 the Australia dollar moved from purchasing 98 cents US to being valued at just above 60 US cents. In purchasing cost terms this was an increase of nearly 50% in the Australian dollar value of our product ranges.

With product markets softening at the time and competition increasing the ability to raise prices to recover the increased cost was limited.

However, we took a three pronged approach to margin maintenance, encompassing selected price increases, reduced product costs on the back of lower commodity prices and tighter management of all overheads.

These actions coupled with the enduring strength of GUD's portfolio of brands in each of their respective product categories underpinned the solid financial performance of the 2009 financial year.

Our underlying net profitability, when the contribution from Victa is removed from the 2008 results, was essentially static.

More importantly, GUD's economic return, as measured by our Cash Value Added indicator has improved for the last two financial years. From 14.8% in the 2007 year the CVA return increased to 16.5% in 2008 and to 16.9% in 2009.

This compares favourably with our weighted average cost of capital of 10% and indicates that we have tightly managed our capital employed at a time when profits have been static. In other words we have freed up cash by not having as much tied up in debtors, stocks or fixed assets over this period.

The solid CVA return performance over the last four years – in a range of between 14.5% to just over 17% - indicates that GUD is able to consistently produce returns over the cost of capital benchmark. This equates, over the longer term, to improving returns to shareholders.

On that subject, I would like to make some comments on our recently announced offer to acquire Breville Group Limited and the implications for GUD shareholders.

In addition to my comments Ian Campbell will provide further information in his address. Shareholders who have additional questions are asked to refer to the GUD Bidder's Statement and related announcements, which are available for download from GUD's website.

The ability to put together Breville with our Sunbeam business presents GUD shareholders with an exciting prospect for an improved future in the small appliances industry. This is an industry that is increasingly becoming dominated by large international companies.

The creation of a stronger Australasian-based appliances business with a leading portfolio of brands and local design capability should have significant appeal for GUD shareholders.

The ability to make an offer for Breville stemmed from the opportunity we took to take up a 19.4% shareholding that was offered to us by a US-based hedge fund in May this year. We acquired this stake for an outlay of just over 18 million dollars at 72 cents per share.

We believe the offer that we have made of one GUD share for every four Breville shares represents full and fair value as it values Breville at a 51% premium to its volume weighted average share price in the month preceding the announcement of our bid.

The scrip offer, provided the conditions are satisfied, allows accepting Breville shareholders to participate in the potential benefits of combining the businesses and would give them access to a share register that has substantially higher liquidity than Breville's and, based on the 2009 year, a fully franked dividend per share that is almost three times as high as Breville's unfranked dividend.

There is no doubt that GUD's returns to shareholders have outpaced those of Breville over the long term and we expect that by applying our management expertise to the Breville business we would be able to extract better returns, in both dividend and share price growth, for existing GUD shareholders and those from Breville who come on board as a result of the offer.

I must point out that our offer has conditions attached to it. First, the offer is subject to clearance from Australian Competition and Consumer Commission and they are currently performing their investigations.

Second, we have a minimum acceptance condition of requiring GUD to obtain a relevant interest in 50.1% of Breville's shares. There are a number of other conditions detailed in the Bidder's Statement.

Shareholders holding 28% of Breville's shares have indicated an intention, in the absence of a superior offer, to accept GUD's offer through the institutional acceptance facility which we will establish. When combined with our 19.4% this totals 47.4% of Breville's shares.

Our analysis of the 2009 financial year pro-forma position where GUD has 50.1% ownership indicates that the transaction would have been neutral or slightly positive to GUD's earnings per share in that year.

Prior to handing over to the Group Managing Director, Ian Campbell, who will talk about more business specific matters, I would like restate the essential components underpinning our business plans which the Board believes are critical to GUD's prosperity in the future.

These are effective brand management coupled with an innovation culture which encourages new product development and strong corporate values on tight cost control. We have pursued each of these fundamentals over a prolonged period and they have been instrumental in delivering the superior cash value added returns I spoke about previously.

We continue to see consistent demand for good quality, well priced branded products and there is no doubt that GUD's stable of brands – Sunbeam, Oates, Davey, Ryco, Wesfil and Lock Focus - qualify under this description.

GUD's strong balance sheet position and cash flow provide a platform for additional future growth. The Board believes we have a group of businesses that, as a whole, complement each other. The group's business model is one of flexible low risk, enabling it to more effectively ride out the vagaries and oscillations presented by the external environment.

We remain positive about the FY10 year. Based on our track record we believe GUD is well positioned to continue to deliver solid returns.

I will now invite GUD's Managing Director, Ian Campbell, to provide you with a Review of Operations.

Clive K Hall  
Chairman  
22<sup>nd</sup> October, 2009