



GUD Holdings Limited

Managing Director's Review of Operations

52nd Annual General Meeting

Thursday 22nd October 2009

RACV Club

501 Bourke Street

Melbourne

Thank you Clive. Good morning ladies and gentlemen.

As Clive has described, we witnessed some extraordinary turmoil in financial markets and the real economy over the last year. Like all businesses GUD's operations have been directly affected by the consequences of the crisis, but we are fortunate in that we have a durable business model, as Clive mentioned.

In this Review of Operations I will touch on the highlights and positives that we saw in the 2009 financial year. I'll also bring you up-to-date with a number of significant, senior management changes that occurred recently and I'll describe how well positioned GUD remains, in my view, to take account of the upswing from this period of moderate downturn.

GUD entered the period in which the global financial crisis developed in a relatively strong position and has emerged relatively unscathed. Rapid and focused management actions were implemented to protect margins in each business to ensure that our commitments to the investor community, in relation to profitability and dividends, were met.

But it has not been easy from a day-to-day management perspective, and we have had to confront a broad spectrum of issues across the variety of activities we are engaged in.

Our largest business, Sunbeam, as an importer of one hundred percent of its product range, faced the challenge of managing through the Australian dollar's roller coaster ride between late 2008 and now. On top of this Sunbeam also faced increasing difficulty in obtaining regular, reliable supply from Chinese-based suppliers.

Following the emergence of the global financial crisis and the resulting demand reductions in the US and Europe, many Chinese suppliers, across a broad range of products, suffered substantial declines in orders from their US and European customers. Some suppliers were unable to survive this and others found themselves under severe financial strain, leading to an inability to finance raw material purchases, for example.

Sunbeam has been affected by a small number of these supply-related issues and there is no doubt that revenue growth was affected in the 2009 financial year due to supply problems. The effect of this has not been substantial, however, and it has highlighted the need to ensure we complete comprehensive due diligence when enlisting a new supplier.

The most pleasing aspect of business performance in the last financial year across the GUD group has been the improvement in the Oates cleaning products business.

You may recall that we described the restructure at Oates in some detail at last year's Annual General Meeting and, at that time, the first signs of improvement in Oates' financial performance, as a result of the restructure, were emerging.

To recap, the restructure entailed the closure of Australian manufacturing in both Western Australia and Victoria. The product range, covering over twelve hundred individual product lines, is now sourced from suppliers based in China, Sri Lanka, India, Thailand and Australia.

The lessons we had learnt from previous, similar business reconfiguration projects at Sunbeam, Victa and Ryco, were applied at Oates and gave us confidence that the expected improvements in returns would come, and would come quickly. Indeed, this is what has happened and it is pleasing to report that Oates has continued to deliver improved financial performance into the current year.

The Davey Water Products business reported a solid growth in profit, after a low point reached in the FY08 year. In that year a substantial amount of cost was incurred in integrating the Monarch Pool Systems business and that investment has manifested in a much improved cost base now and into the future.

Davey has, however, suffered from depressed demand for both swimming pool and spa-related products as these have experienced declining demand in the tough economic conditions. Swimming pools and spas are discretionary items that consumers withhold from purchasing in economic downturns.

Offsetting these influences is a growing demand for products related to water conservation and domestic water treatment. We expect that, with the continued effects of climate change and prolonged dry conditions, demand for these product ranges will show reliable growth into the future.

Our Automotive businesses – Ryco, Wesfil and Goss – are performing strongly. The market for filters for car servicing remains stable and both Ryco and Wesfil have benefited, in net terms, from the closure of National Parts in February 2008.

The growing complexity of the car population, in both Australia and New Zealand, and our businesses' more comprehensive knowledge of part number applications have been instrumental in Ryco, in particular, gaining new business in outlets that previously stocked other brands.

Wesfil continues to provide industry setting levels of customer service through its national branch network and as a consequence has experienced strong revenue growth in recent years.

The third member of this business group – Goss – is being integrated into Ryco's operations at Tottenham in Victoria and this initiative will lead to a lower cost base and improved customer service.

Finally, our smallest business, Lock Focus, experienced a drop in revenue in the prior financial year, essentially as a result of declining demand from customers in the building and recreational vehicles industries.

The challenge for Lock Focus is to uncover and satisfy demand in new business and market segments. We have invested substantially in reducing the cost base over recent years through automating production processes and we now need to grow sales to ensure we achieve an adequate return on those investments.

During this period of substantial external turbulence we have made a number of significant changes at senior management level which, we believe, will be positive for the affected businesses as we move through the 2010 financial year.

In August 2008 we appointed David Jackson as Chief Executive of Sunbeam Australia. David comes from a diverse and successful background in manufacturing industries as well as having experience in the retail environment. Since coming on board David has tackled some of the most pressing issues affecting the Sunbeam business, including those related to supply that I touched on earlier.

David has driven the recent, successful implementation of a new business system at Sunbeam and is currently actively engaged in forming a new, revitalized management team.

In April this year Geoff Charnley joined as Chief Executive of Lock Focus, following a successful career across a number of manufacturing businesses. Geoff's open management style coupled with his enthusiasm should augur well for developing the growth direction that this business requires.

Additionally, in the current financial year Carsten Andersen took the role of heading the Davey Water Products business, following the retirement of David Cleland in mid-August.

Carsten comes from an international water products industry background and, I am sure, will put his own mark on Davey as he gets to know the business, its customers and its capabilities over the next few months.

Carsten has a hard act to follow as David Cleland put his own indelible mark on Davey and on the businesses we acquired and integrated with Davey, over the last fourteen years.

I want to acknowledge David's immeasurable contribution to both Davey and GUD since he commenced with the group in July 1995, following GUD's acquisition of Davey in March that year.

Under David's leadership Davey has grown from \$45 million in sales to around three times that amount. This growth has come from new products and from the acquisitions that David has overseen and integrated into Davey.

David developed a strong management team and culture in the business. He had a strong connection with the customer base, which essentially comprises owner-operated water businesses in regional and rural areas, and I am sure he will miss the contact with these business people as he develops his post-GUD career in other directions.

On behalf of the Board and the rest of GUD's senior management we wish David well in his retirement years and thank him for his efforts and contributions over the last fourteen years.

Following the Chairman's comments on the details of our bid for Breville I would like to outline for shareholders the strategic rationale for the offer as described in our Bidder's Statement.

One of the primary attractions for us is the ability to grow internationally with our award winning, Australian designed appliances. Our ownership of the Sunbeam brand covers Australia and New Zealand only and this geographic restriction is hindering our ability to grow sales and profits in other markets.

If we obtain 100% ownership of Breville we intend to conduct a strategic review focusing on a number of critical areas including the opportunities to accelerate growth in international markets, particularly North America, utilising Sunbeam designed products and the Breville brand.

As part of the review we will also evaluate the optimisation of product sourcing and other business functions which we expect to be available through merged economies of scale.

Opportunities to co-ordinate product design and development to enhance the overall product range will be part of the review, as will reassessment of branding strategies and an evaluation of back office support function integration.

One of the obstacles both companies confront at present is our lack of scale with product suppliers in comparison with European or US appliance businesses or retailers.

This lack of scale can translate to lower production priority leading to potentially delayed or late shipments and to less attractive pricing. A combined business may enable us to minimise these influences and position us more effectively to compete in international markets.

One of the strengths of both Breville and Sunbeam is their respective product development capabilities. We often compete for Australian design awards and both brands have been successful in not only achieving local design recognition but also in international design competitions, such as the well regarded Red Dot Awards.

At full ownership of Breville we would have the potential to coordinate product design and development activities across all the owned brands. Although the financial benefit is not possible to forecast, this co-ordination may provide the business with a leading capability in the local industry focusing on innovation, technology and product development.

It is vitally important for the long term health of both the Breville and Sunbeam brands that in all consumer and customer facing activities the uniqueness of each brand is maintained as set out in our Bidder's Statement.

It is our intention to retain the separate management teams for Breville's marketing and sales organisation. Under 100% ownership by GUD, Breville would continue to compete directly with Sunbeam's sales and marketing organisation.

Currently we are a long way from making any of this happen. We await the ACCC's deliberations on the market implications of our offer and we need to see the level of support we receive from Breville's shareholders.

As The Chairman mentioned, shareholders seeking further information in relation to the offer for Breville are able to source the Bidder's Statement and other related announcements from the GUD website.

I would like to conclude by talking about how GUD is positioned for the future.

Based on our track record of strong cash generating ability, our solid balance sheet position and the fact that we have long term debt facilities in place for the next few years, we are excellently positioned to benefit from the expected upswing in overall economic activity.

We have the ability to grow market share in every category we compete in, through a combination of our branding and planned new product activities.

We retain our focus on those elements of our activities that make a long term difference – brand management, new products and active overhead cost control.

I will now hand you back to the Chairman to cover the business of the meeting.
Thank you.

Ian A Campbell
Managing Director

22nd October, 2009