



**GUD Holdings Limited**

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20 October 2004

Manager, Company Announcements  
Australian Stock Exchange Limited  
Level 4  
20 Bond Street  
Sydney NSW 2000

Dear Sir

**RE: GUD HOLDINGS LIMITED – ANNUAL GENERAL MEETING**

Please find attached the text of the Chairman's Address to Shareholders and the Managing Director's Address to be delivered at the Annual General Meeting of GUD Holdings Limited at 11.00 am today.

A copy of the Chairman's Address will be mailed to all shareholders.

Yours faithfully

LAWRENCE R TUTTON  
Company Secretary

Encl:





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

Wednesday 20<sup>th</sup> October 2004  
Plaza Ballroom  
191 Collins Street  
Melbourne

The results for the 2004 financial year demonstrated further progress on all elements of the business strategy adopted some time ago. For the third consecutive year, GUD finished in its strongest financial position, a situation that provides the platform for continued improvements in operational performance and financial strength.

The highlights of the 2004 year were:

An increase in net operating profit before one off items of 52% to \$41.7 million.

An increase in earnings per share before one off costs of 51% to 68.6 cents.

Annual dividend increased 54% to 40 cents per share fully franked.

And net debt reduced to its lowest level in many years – the reduction being 16% to \$17.6 million.

One of the most pleasing aspects of the results was that the improvement was spread across all our business units. Underlying profit margins increased and all businesses exceeded the Group's Cash Value Added benchmark.

The application of CVA principles has been a significant contributing factor behind the gains made in operational performance. For the second consecutive year all businesses generated CVA returns in excess of our 10% cost of capital, while the Group as a whole comfortably exceeded this benchmark for the third consecutive year.

CVA is critical for shareholders in that, in the long term, if the company produces returns in excess of the cost of capital, shareholders will be rewarded by increased dividends and improvements in the share price. Indeed this has occurred in the three years over which CVA returns have exceeded the cost of capital.

Since the 2001 financial year, a period over which the Group as a whole has produced CVA returns in excess of 10%, shareholders have been rewarded with a 167% increase in dividends and a fivefold increase in the year-end share price.

Apart from the progress made on producing improved returns in 2004, we instigated a number of major strategic initiatives.

The first of these was a partial restructuring of the Ryco automotive filter business in Australia in the first half of the year. This entailed a product sourcing program covering half of the part numbers marketed by Ryco.

This programme was initiated to counter the increasing cost advantage of imported automotive filters. The positive effects of the restructuring were evident in the 2004 results and the payback was generated faster than planned.

In addition, we recently announced that we will be ceasing the manufacture of automotive filters in Australia from the end of February 2005. The full withdrawal from local manufacturing is a decision that has been under consideration since the partial outsourcing initiative last year. The results from that prior program have indicated that for long term economic viability, outsourcing is the only course available to us.

The Ryco brand has a unique, quality positioning in the automotive aftermarkets in both Australia and New Zealand. GUD has always marketed Ryco branded products as meeting or exceeding original equipment specification.

To support that long standing position into the future we will retain our internal capability to design, develop, validate and perform quality assurance procedures for automotive filter products. The retention of the only dedicated automotive filtration laboratory in Australia to support these functions is a critical point of difference between GUD and its competitors.

The cessation of Australian filter manufacturing next year parallels Sunbeam's withdrawal from small appliance manufacturing since the late 1990s. Similar to the Sunbeam experience, the Board recognises that for staff operating in this environment it is not an easy time, and I would like to thank all the Ryco people involved for their dedication through these periods.

Additionally, in the 2004 financial year we took the decision to cease manufacturing electric blankets at Sunbeam's Palmerston North factory in New Zealand. Electric blankets have gone the way of all other appliance products we market under the Sunbeam brand. The continuation of local manufacturing would have placed Sunbeam at a significant cost disadvantage over the medium to long term.

In this process we have been able to secure access to leading edge electric blanket technology. This, allied with a much lower cost base, will underpin Sunbeam's brand position and price competitiveness in the electric blanket segment, a segment in which Sunbeam is the market leader in both Australia and New Zealand.

We recently stated that, following the major repositioning and restructuring programs of recent years, the Group is now more focused on long term growth. In his address, Ian Campbell will detail some of our multi-directional growth activities.

We have publicly stated that we are seeking acquisitions, both bolt-ons to our existing businesses and a further, substantial line of activity. On the latter of these, management have reviewed many opportunities but none have met our financial and strategic criteria. We have consistently stated that the underlying financial strength of GUD will be protected and this remains the position. We will not embark on a major acquisition pursuing growth for growth's sake.

We made one bolt on acquisition in the 2004 year. In late April this year we acquired the Auckland based Spa-Quip, a business that complements Davey's activities in the spa bath industry. Ian Campbell, in his address, will provide you with more details of this purchase and its current trading performance and outlook.

Fundamentally, our direction for the future remains the same as that outlined at this time last year. Our focus is more expansive than it has been in previous years and we are actively investing in product development programs and additional market share growth opportunities.

We continue to seek growth through innovative, differentiated new products and allied services in all our business streams. The importance of these activities cannot be understated. New products are essential for maintaining the interest of consumers and customers for revenue growth purposes.

Simultaneously, we need new products to assist in the generation of higher margins. All the categories we are active in are extremely competitive, and new products such as those in the various displays around this auditorium, are fundamental to providing our brands with the opportunity to grow at the expense of competitors.

We have been pursuing this direction for some years now and the financial results you have seen from GUD are partially a reflection of this element of our strategy.

To conclude I would like to comment on the current year's trading outlook.

The focus on seeking further operational improvement continues in each business and objectives are built into our operational programs for this year to ensure these are achieved.

Simultaneously, we are pursuing growth across a number of dimensions – organic growth from new products, bolt on acquisitions and a substantial further line of business acquisition.

The year has commenced strongly with trading profit in the first quarter tracking ahead of last year. We expect this to continue for the first half and the Board's expectations are for further improvements in performance this financial year. These achievements should be reflected in improved fully franked dividends for shareholders.

I will now ask our Group Managing Director, Ian Campbell to outline in more detail the elements of the Group's strategy and how these will contribute to improved returns in future years.



GUD Holdings Limited

Managing Director's Operational Review

47<sup>th</sup> Annual General Meeting

Wednesday 20<sup>th</sup> October 2004

Plaza Ballroom

191 Collins Street

Melbourne

Good morning ladies and gentlemen.

In my address today I would like to outline to you the major elements of GUD's strategy and how these translate to management activity and, in the long run, to better financial performance.

Fundamentally, our strategy has been consistent over the last five or so years. We have focused on operational improvements whilst building for the future with new product programs. We have supplemented these with tight management of cash flow, aimed at minimising debt and we have instilled a culture of tight cost management.

The main focus in the operational improvement element of our strategy has been the continuing questioning of whether we should make or buy our range of products. As markets, industries and economic conditions change so we must re-evaluate the longer term viability of manufacturing in relatively high cost source countries like Australia and New Zealand.

Clive has outlined the changes we made to both Sunbeam's and Ryco's manufacturing operations in 2004 and those in progress in Ryco at present. In our other businesses the viability of continuing to source components, sub-assemblies and whole products in Australia remains under review. But we recognise the unique circumstances that each business is in and that the philosophy of "one size fits all" is not necessarily applicable.

The benefits of the prior restructuring programs are fully evident in the 2004 results for Sunbeam Victa and Ryco. In both businesses profit margins improved to their highest levels of recent years and CVA returns substantially exceeded the cost of capital. Although they were operating in more efficient environments, the strength of the Australian Dollar against the US Dollar was a positive profit influence.

Apart from the announced closure of filter manufacturing in Australia early in 2005, we have no immediate plans to fundamentally change the nature of our remaining manufacturing operations. However, as circumstances change we will review, as we have in the past, the viability of our operations and we will assess and apply the best operational structure to take our businesses forward.

The second platform of our established strategy has been the focus on new products and technology as a means of underpinning improvements in sales and profit margins. Allied to this in recent years has been the capability to supplement growth through acquisitions.

I would like to dwell on this last element for a moment and describe the process we are adopting for bolt-on acquisitions by using the Spa-Quip activity as an example.

Spa-Quip was identified by Davey as a potential complementary business acquisition. Spa-Quip manufactures and markets components such as pumps, electronic controllers, blowers, heaters and filters for spa pool manufacturers in Australia and New Zealand. Davey is active in the spa bath industry with a more restricted range of products and shares with Spa-Quip some common customers. Spa baths are generally located inside a bathroom and spa pools are usually in a garden or on a deck.

The rationale for acquiring Spa-Quip was multi-dimensional. First, we saw the overlap between the businesses – that is the opportunity to take each business’s products and technologies into the other’s established markets. Second, we saw the potential to improve the operational performance of Spa-Quip by applying GUD’s established management techniques and philosophies, underpinned by CVA concepts.

In addition we saw the potential to grow export sales of Spa-Quip’s products through utilising Davey’s established international sales network. Finally, we also identified the opportunity to grow Spa-Quip through implementing a more rapid product development and innovation program, consistent with those in place in our other businesses.

The Spa-Quip opportunity is more about growth than about synergies, although we have taken the opportunity to merge functions and operations between Davey and Spa-Quip where sensible and where customer service standards can be improved.

Spa-Quip has been in the GUD Group for nearly six months. In that time we have installed our own management team and processes, refocused new product development activities and integrated some functions with Davey.

To date the results from Spa-Quip are tracking ahead of our expectations and we expect further improvements this financial year. We are more than comfortable that both operationally and financially Spa-Quip will deliver all that we expected at the time of the acquisition. In addition Spa-Quip provides us with an excellent model on which to base future bolt-on acquisition activity.

Although bolt-on acquisitions provide the opportunity for quantum gains in sales and profit they are hard to come by and identified acquisition candidates are not always available. Therefore, we continue to focus on internal new

product development activities to be the primary drivers of sales and margin growth. Again this year we have an exciting story with new products.

Last year I spoke to you about the activities behind the launch of Victa's *Razor* mower. We followed up the *Razor* launch with a revamp of our product offerings for mowing contractors – the *Masters* series. This calendar year we launched to the market the new steel deck range of mowers – under the *Tornado* trade mark.

The launch of *Tornado* completes for Victa the upgrade of its complete product range over the last two years. We now have a portfolio of mowers incorporating contemporary design and improved functionality. In addition we have been able to reduce cost through using more common components across models and improving manufacturing processes.

The *Razor* and *Tornado* projects are prime examples of our approach to generating growth through internal innovation and product development. Both products have been developed with substantial input from the market and partnering with a leading industrial design house. The holistic approach taken to the development of both these products has been unique in Victa's recent past.

The GUD Group was well represented at this year's Australian Design Awards, a reflection of the inherent strength we have developed in innovation and product design. A total of six products were entered for assessment – three from Sunbeam, two from Davey and Victa's *Razor* mower. All six products received Australian Design Mark recognition, a truly significant achievement.

Consistent with prior years Sunbeam continues to power along with new product activities. A comprehensive and impressive range of new product releases is in place for Christmas this year. This includes an expanded range of novelty products following last year's success with the Flossy fairy floss maker, an expanded Café Series range including new commercial quality toasters and a number of new products in other categories such as coffee, juicers and home cleaning. A trade catalogue of new Sunbeam products released for Christmas is in the bag on your seats, along with product literature from all other businesses.

Davey was very active with new product activities in the 2003 financial year and has been active in 2004 launching these to the market. The water saving RainBank® product, apart from receiving a number of industry awards, is poised to grow substantially as the New South Wales BASIX regulations, requiring 40% water saving on new homes, take effect and similar regulation in other States is mandated.

Recently Davey relaunched its revamped single stage Firefighter® pump with a new design incorporating a number of unique product benefits along with cost saving features.

Not to be outdone by its larger corporate cousins Lock Focus has also been active in developing new locking solutions for its original equipment customers.

Exemplifying Lock Focus's activities is the new gravity-activated lock for security bins. This device has been developed in consultation with the security document disposal industry that is seeking to reduce its costs by automating the emptying of security bins. This lock, which has provisional patent protection, incorporates unique technology that allows a 'wheelie' type bin to automatically unlock as it is tipped and mechanically emptied and to re-lock as it is placed down on its base.

The last elements of our strategy – tightly managing cash flow to effect debt reductions and instilling a culture of strong cost control – have been instrumental in delivering the balance sheet strength we now enjoy and the improvements in shareholder returns that come from improved financial returns.

Although the results have been satisfying and the investment markets have recognised this by upgrading GUD's stock much more can be achieved. There is scope for further gains in operations, without major restructuring. These gains will come principally from supply chain activities – purchasing, shipping and forecasting inventory management, in particular.

I think it is fair to say that we have provided a consistent message on our direction and objectives over the last five years and the fundamentals we have communicated in that message have not changed. The emphasis is now slightly altered as we have the financial capability to more aggressively pursue growth opportunities.

In closing, I want to assure you that our existing strategies remain. We will be innovative and actively develop new products, we will tightly manage our costs and ensure that our investments are minimised for efficiency and for cash generation. In addition we will seek to grow by acquisition.

All of these elements are directed towards strengthening our financial performance and, consequently, underpinning increased shareholder returns.