



Housewares International Ltd  
ACN 086 933 431

## ASX Release

# Chairman's Address to Shareholders

**Date of Annual General Meeting: 24 November 2005**

**Chairman: Mr W Wavish**

Good Morning Ladies and Gentlemen, and welcome to Housewares International Limited 2005 Annual General Meeting.

The period since I joined you twelve months ago as Chairman of Housewares International has been an eventful one, both for HWI itself, and the industry in which it operates.

In my address to you today, I will talk about what has happened in the last twelve months, and also about the period ahead.

In general the Australian retail market has been difficult, whilst internationally we have grown significantly.

In Australia, a combination of poor retail trade, and a propensity for retailers to source entry price point merchandise and non-differentiated items direct from China, has made business difficult for us.

In early April 2005 we announced a change programme in our business, chiefly centred around Australian Homewares. In a restructuring which we anticipated would take 12 to 18 months, we set about exiting about 20% of our Australian Homewares business where retailers were already, or were likely in the future, to source direct from overseas factories, mainly in China.

In addition, we set about aligning the culture of our Homewares business with that of our more successful Electrical business, both in Australia and Overseas.

## Chairman's Address to Shareholders continued

As I said in this year's Chairman's Review in the Annual Report, "Our response to the challenges and "plate shifts" has been to align our strategy with those global challenges, and to align our Homewares strategy with the successful Electrical strategy. We are focusing upon:

- The quality and differentiation of our design, product development and innovation, not just in the successful Breville 800 series, but across the entire Electrical and Homewares businesses
- Building "Breville" and certain other brands, both globally and in Australia, in order to maximise value
- Increasing the skills of our China sourcing teams in Shanghai and the Pearl River Delta
- Consciously and professionally developing our relationships with major retailers in Australia, USA and across the globe."

In making these fundamental changes to the Australian Homewares business, we have ceased to be an "item house", buying existing product from factory catalogues and from trade fairs, and are now, like our Electrical division, a designer of our own products which are made to our specifications and designs by our China factory partners. We believe that these changes will enable the Australian Homewares business to position itself for future growth.

Since announcing this refocusing, approximately eight months ago, we have made excellent progress and, as I announced last week, we are running well ahead of schedule. Some of you present today visited our Sydney showrooms last week to see some of that progress, especially on the Australian Homewares product development side.

In respect of the Australian Homewares restructure, we have reduced customers accounts by 40%; rationalised and reduced our China factory count by 30%; reduced staff numbers by 20%; exited one of two outside storage warehouses; exited or contracted to sell 25% of the Homewares inventory representing about 75% of our exit target; and closed 20% of our Homewares skus representing about 50% of our deletions target. This programme should be complete earlier than expected around March 2006.

A smaller USA Homewares rationalisation should be complete next month. Sabco will take a little longer, as the "rebirth" of Sabco did not begin in earnest until September, but it is now getting real traction. Last week we announced the intended bolt-on acquisition by Sabco of the Britette commercial cleaning supplies business as a part of Sabco's vigorous rebirth under Jeff Kelso.

## Chairman's Address to Shareholders continued

The Homewares design, development and innovation centre is now running at Botany in Sydney alongside the Electrical centre. Its first product output is already selling very well in Australia in Myer department stores. These products under the "Breville Home" brand cross both the Electrical and Homewares categories for the first time.

The success and differentiation of this "Breville Home" Homewares and Electrical range has drawn international interest, and we are at various stages of discussion with major retailers in four countries that could allow us to leverage this development work internationally. The distinctions between the Homewares and Electrical product categories and divisions are greying, as brand and customer become key. We believe that our ability to provide a combined value-added Homewares and Electrical offering to our customers ideally positions us to capitalise on this.

The second wave of output from the new design centre will see a new "Arcosteel" range launch in Australia in Kmart and Big W in February 2006.

I now turn to the trading performance in the first four months of this financial year, market conditions, and the future outlook.

In total, results to date and expectations looking forward are in line with our guidance previously provided. We continue to anticipate underlying profit after tax for the full year to be in the range of \$20 ½ million to \$22 ½ million before the one-off items referred to shortly. We have previously advised that the dividend will approximate 75% of underlying earnings. Based on the earnings guidance, this would translate into a full year dividend of 13c to 14c, compared with 13c last year.

Obviously, this guidance comes with the usual caveats. It is subject to market trading and economic conditions continuing to be in line with our expectations, and with the Christmas peak period still having some time to run, we will keep our fingers crossed.

Given that last year's result was much stronger than in previous years in the first half relative to the second half, and that in this year many of our initiatives and savings will benefit the second half to a greater degree, we anticipate greater weighting to the second half year. We anticipate flat to slightly negative total sales in the first half year and a double digit sales increase in the second half year. Underlying profit after tax is likely to be around 60% generated in the first half year, and around 40% in the second half.

## Chairman's Address to Shareholders continued

Looking at the segments, we have seen Australian Homewares sales reduce significantly in the first four months of this financial year, as planned, due to the announced product rationalisation programme, and as Sabco leadership issues were being resolved. We anticipate earnings to be down in the first half year, but up in the second half.

Australian Electrical sales have been flat in a weak market, and it would be premature to forecast any significant retail uptick.

International Homewares and Electrical sales have both grown double digit, and are anticipated to do so for the full year.

The combined effects of these factors should see our International businesses representing around a third of sales and in excess of 40% of profits this year. In around two to three years we would expect International to represent more than half of our business, with the distinction between Electrical and Homewares diminishing. We believe that the size and growth potential of our International businesses and focus on design, is unique relative to other companies in our sector, and provides us with both diversification benefits as well as scope to achieve attractive future growth.

As I said in April, and again in the Annual Report, the changes that we have made align the approach, philosophy and culture of Homewares with Electrical. With the success of this move, and given that we have arrived at this point earlier than we had expected, we will now move to merge the Homewares and Electrical businesses.

Many of you present today know this business very well, and some have followed it for some time. You will then appreciate what pleasure it gives me to announce that after the closure of this meeting today, it is intended that Joe Hersch will become Managing Director of your company, Housewares International.

It follows that I will revert to Non-Executive Chairman immediately due to the alignment progress being virtually completed. I will however continue to work with Jeff Kelso as the re-birth of Sabco develops traction.

It also follows that Mark Kirkby will relinquish his seat as an Executive Director. Mark will continue involvement in the restructure and in our International investments as General Manager Corporate Finance. Accordingly, Resolutions 3(d) and 5 set out in the Notice of Meeting are being withdrawn.

## Chairman's Address to Shareholders continued

The merging of Homewares with Electrical will involve some one-time costs, which we are yet to fully quantify. For your guidance we would expect those one-time costs to be in the order of \$2 ½ million (before tax) and it is anticipated that the benefits of the merger should generate annualised savings of \$2 ½ million (before tax) when fully implemented by June 2006. None of these merger savings or costs are included in the FY2006 earnings guidance.

In summary, we believe that we have made significant changes and gains in a difficult Australian market since we met here a year ago. We believe that HWI under Joe as MD is positioned to be a significant innovation, brand and customer led business on the international stage. This is not a dream for the future. This is today. Breville is already well recognised in the USA by the management of Macys, Bloomingdales, Williams-Sonoma, Crate & Barrel and Bed Bath & Beyond. For example, Breville is increasingly recognised in their public statements, in their catalogues, and in their receptiveness to our new ideas. It follows that "Breville" and our other brands are increasingly known to American and international consumers.

Your board and management appreciate your interest and support. We believe that we have correctly repositioned your company in the market, and also relative to other companies in our sector, and that this should help to create increasing shareholder value over time.

Thank you.