Speirs GROUP
NEW ZEALAND GROWN : GROWING NEW ZEALAND

SPEIRS GROUP LIMITED 2017 AGM
Chairman's Speech

I am pleased to report to you a summary of our results to 30 June 2017 and an update on Company affairs since that date.

Overall Results

The overall results compared to last year are as follows:

	2017 $(000)	**2016 $(000)**
Speirs Foods Profit before Interest	(309)	460
Profit / (Loss) Contribution from Others		
• Rosa Foods	115	103
• Advaro	(36)	(181)
• Equipment, Lease & Financing	613	-
• Speirs Nutritionals	(3)	(4)
• Allied Farmers	-	32
Corporate Expenses incl Refinancing and Delisting	(273)	(299)
Partial Recognition of Future Income Tax Benefit	-	315
Net Financing Costs	(312)	(309)
Net Profit/(Loss) After Tax	**(205)**	**117**

Overall the Group recorded a loss of $205,000 for the year ended 30 June 2017, compared with the profit of $117,000 recorded in the previous year. The overall loss was primarily the result of very difficult trading year for Speirs Foods which resulted in a loss before interest of $309,000 compared with a profit of $460,000 in the previous year. Further explanation of this is provided shortly, together with the actions taken to turn this situation around.

The increase in value of Equipment, Lease & Finance Holdings Limited of $613,000 provided a positive contribution to the result.

Speirs Foods

Speirs Foods maintains its role in the processing, distribution and marketing of fresh salads and related products throughout New Zealand.

The result for the 2017 year was a disappointing loss before interest of $309,000 compared to a profit before interest of $460,000 for the previous year. The 2017 year was impacted by several adverse factors:

- A reduction in prices for our core product range forced by competitive and customer pressure;
- Substantially increased material costs over the last six months of the financial year due to the very wet climatic conditions throughout the country causing shortages of key materials such as cabbage, broccoli and kumera;
- Additional South Island freight costs resulting in increased time and distance to get product to the South Island following the Kaikoura earthquake;
- Loss of significant third party freight revenue;
- A number of one-off costs associated with the replacement of management personnel and restructuring of the administration and sales support functions of the business.

A number of these costs, amounting to approximately $350,000, are one-off and are not expected to be repeated in the current year.

Over the last 9 months of the 2017 financial year and the first few months of the 2018 year, the Foods business has undergone substantial review and change to better position the business for the future and improve its financial resilience.

Actions that have been taken include:

- A review and restructuring of the administration and sales support functions. Ordering from key supermarket clients has been progressively automated and we have been able to reduce sales support head count and costs.
- A thorough review of our product recipes and material sources has been undertaken resulting in a number of cost reductions. This helps us remain competitive with our core product range.
- A revised New Product Development (NPD) process has resulted in a steady pipeline of new higher value salads bought to market which are proving popular with our customers and providing additional margin.
- A review of our freight operation was undertaken which has resulted in the decision to exit our freight operation from August 2017. We have established a strategic outsourcing relationship with a specialised chilled freight business which will simplify the business and provide stable freight costs for the business;

The benefits of the changes implemented are expected to return the business to reasonable profitability in the 2018 financial year, although we expect the impacts of higher material costs to continue for some time. The full benefits from the changes will be fully realised in the following financial year.

Our results from the first 5 months of the 2018 financial year show an improving trend and a significant improvement over the 2017 year.

I would like to acknowledge the work of our Acting General Manager of Speirs Foods, Ross Kane who has led the business for the last year. Ross and his team have reviewed all aspects of the business and developed an action plan to move the business to a new level in terms of both the market and the internal efficiency of the business. The work continues but we are confident that the business is now in a more robust and resilient state.

Rosa Foods

Speirs Group holds a 40% shareholding Rosa Foods Limited. Based in Porirua, Rosa Foods manufactures heat and eat meals, frittatas, bakes, salads, pasta sauces, pies and a range of family pies which are sold through the two main supermarket chains. Rosa also undertakes a range of contract preparation of food for several other food retailers.

Rosa had another solid year providing a contribution of $115,000 to Speirs Group an improvement of 11.7% over the previous year.

Equipment Leasing and Finance Holdings Limited (ELF) / Advaro

As at the end of the 2016 financial year, Speirs Group Limited) held a 9.17% interest in Advaro Financial Services Limited ("Advaro"), a finance and leasing business. On 30 September 2016, a series of transactions occurred which included:

- Advaro being transferred into a new holding company, Equipment, Leasing & Finance Holdings ("ELF");
- The introduction of new capital into ELF diluting Speirs holding to 2.4% of equity plus 0.4% preference shares; and
- The acquisition of the business of NZ Trucks Limited and AB Equipment Limited from Hellaby Holdings.

As a result of these transactions, Speirs Group now has a smaller share of a much larger entity. The acquisition of the established businesses of NZ Trucks Limited and AB Equipment Limited also means that the entity began to achieve profitability immediately. As a smaller shareholder Speirs Group has lost the right to appoint a director to ELF and will have limited influence on its future operations.

The value of our shareholding in ELF is recorded as our share of the net assets of the Company. As at the end of the period there was an increase in the value of our holding of $613,000.

The impact of the acquisition has been very positive and the business is trading to expectations.

Speirs Nutritionals Partners LP (SNP)

SNP have sold the Intellectual Property, Processing Technology and Knowhow associated with its Omega-3 fish oil product and discontinued its manufacturing operations in New Zealand. Future Revenue will only arise if sales of the Omega-3 product range by the new owner commences.

Corporate

Corporate non-financial costs have reduced and are kept at a minimum.

The directors have taken the decision to reduce their fees for 1 July 2018 to recognise that the business has been simplified and financial performance has not been strong. Total fees for Group and Foods are expected to fall from $174,000 for the 2017 year to $99,000 for the 2018 financial year.

Financing

The Group had $2.93 million of 2017 redeemable preference shares due for repayment on 30 September 2017. These redeemable preference shares have been repaid and re-financed by way of:

- Cash of just over $400,000 recently received from Equipment, Leasing and Finance Holdings from the partial repayment of subordinated debt held by Speirs Group Limited in that entity;
- $2.5m raised by way of an offer for redeemable preference shares that mature in September 2021. The offer was made to a group of investors who qualified under certain exclusions in the Financial Markets Conduct Act 2013, namely: the "wholesale investor" exclusions; the "small offers "exclusion; and the "offers to close business associates" exclusion. The terms of the issue of 2021 redeemable preference shares are substantially similar to the terms to the 2017 redeemable preference shares

In the current reporting period, Speirs Foods concluded the sale of the premises in Hair Street, Marton acquired for the Speirs Nutritionals business and subsequently leased to another technology business. The funds received from that sale have been used to offset financing from other sources for trading activities.

We have a strategy to reduce debt to improve the company's equity ratio through management of our assets and returning Speirs Foods Limited to positive cash generation.

Board and Management

The Board of Speirs Group presently comprises four non-executive directors– Derek Walker, Nelson Speirs, David Speirs and myself.

I retire by rotation this year and offer myself for re-election.

We presently maintain a separate Speirs Foods board. This is made up of Derek Walker, Fred Hutchings and Robert Speirs.

Both boards continue to work effectively and I thank my colleagues for their work on behalf of the Company.

Our company secretary Lee Simpson continues to provide excellent support to the Group. He carries out his secretarial and finance responsibilities with a high degree of efficiency and professionalism.

I would also like to thank the team at Speirs Foods for their continued hard work in a challenging market environment and through significant management and operational change as we actively position SFL for the future in a dynamic fresh food market.

Auditors

The auditors KPMG were appointed as auditors in 2011 following a tender process. They have carried out their responsibilities diligently and the directors have confirmed their appointment for the 2017/18 year.

Outlook

Our primary focus is on the profitable growth of Speirs Foods. We are seeing the benefits of actions taken to improve Speirs Foods profitability and the results are tracking ahead of budget and the previous period.

Our shareholding in the finance business, Equipment, Leasing and Finance Holdings Limited is now quite small and we have very limited influence on the operation of this business. However, that business is growing and its value is expected to increase over time.

We have not paid a dividend to date this year. Dividends remain under review and will only be paid if the directors believe it is prudent to do so based on trading results and the need to retain cash for debt repayment.

Overall, our focus remains on strengthening our balance sheet and re-building shareholder value.