

## **SPEIRS GROUP LIMITED 2015 AGM Chairman's Speech**

I am pleased that this year we are able to report to you further progress in rebuilding shareholder value of Speirs Group.

We had solid results from our trading businesses and I will speak to each of those shortly.

We also recovered further value from our settlement with Allied Farmers and the cash received from this has enabled us to reduce debt across the group.

Overall we achieved a profit of \$544,000 for the 2015 year and paid two dividends each of 0.5 cents per share.

Looking to each of our activities in detail.

### **Speirs Foods**



- We achieved good sales volume growth but average price was lower due to higher proportion of lower value and product supplier pressure on price. The supermarket business is very competitive and price pressure on suppliers is always high.

- Net profit result was down on last year but the result before interest and depreciation was similar.
- The second half of year was tougher than first half, with pressure on selling price and higher labour costs.



- Over the last three years Speirs Foods has achieved good growth in sales and delivered margin
  - Sales volume +28%
  - Sales value +22%
  - Total \$\$ delivered margin +27%

This year to date progress:

- For the first few months of this financial year Speirs Foods profitability has been adversely affected by higher material and labour costs arising from a poor growing season for our key raw materials, particularly cabbage.
- The supply situation has now improved and we are focused on improving margins over the key summer months to recover the position relative to last year.
- Recently we have commissioned a new packaging and labelling plant that will lower costs
- We continue to focus on new products and promoting and cycling existing products over different seasons

***Rosa Foods Limited***

Alongside the Speirs Food business we have a 40% interest in Rosa Foods which manufactures and supplies ready-made meals to supermarkets and other distributors and does contract food manufacturing out of a plant in Porirua.

Rosa Foods had an excellent 2015 year growing both sales volume and profitability. Speirs share of the profit from Rosa rose from \$34,000 to \$141,000. This profit has presently been retained in the Rosa business to repay debt and undertake further capital expenditure to cope with the volume growth occurring in the business. Rosa Foods have however commenced repaying the \$100,000 of preference shares held by Speirs and this is expected to be completed over a two year period.

***Advaro Financial Services Limited***

As at 30 June 2015 Speirs Group held an 11.8% shareholding in Advaro Finance and has provided \$1m of interest bearing subordinated debt. Since 30 June, Advaro has undertaken a further capital raising to fund growth. Speirs Group did not participate in this capital raising and our shareholding has fallen to 9.2% as a result.

Advaro Finance continues to build its receivables book and is not yet producing a profit. Growth is in line with expectations and if this continues, it is expected to move into profitability over 2 years.

Nelson Speirs remains a director on the Advaro Finance board.

***Speirs Nutritionals Limited Partnership***

Speirs Nutritionals is now essentially a dormant business with the only remaining asset being the potential to receive payments when sales of product are made using the technical know-how that was sold in 2011. No such payments have been received yet or are expected in the immediate future.

***Allied Farmers Limited***

We reached agreement last financial year with Allied Farmers that they would meet their obligations to Speirs by the issuing 14.7 million ordinary shares in

Allied Farmers Limited to Speirs plus a payment of \$500,000 to Speirs in April 2016.

During the year to 30 June, we sold just on 9 million of these shares, realising cash of \$662,636. Just prior to the end of the financial year we also reached agreement with Allied Farmers to settle the debt due in April 2016 for \$400,000 cash plus a further 500,000 shares in Allied Farmers.

In July we sold the remaining shares owned, realising \$363,781, bring the total amount realised from the original \$2m debt (which we had previously written down to zero) to just on \$1.4 million. This has been a very good outcome for Speirs Group with the cash received used to repay debt.

### **Overall Results**

The overall results compared to last year are as follows:

	<b>2015</b> <b>\$(000)</b>	<b>2014</b> <b>\$(000)</b>
Speirs Foods Profit before Interest	509	608
Profit / (Loss) Contribution from Others		
• Rosa Foods	141	34
• Advaro	(72)	2,058
• Speirs Nutritionals	10	(40)
• Allied Farmers	671	734
Corporate Expenses inc refinancing	(298)	(812)
Net interest	(417)	(563)
Profit	544	2,019
Operating Cash Flow Surplus	157	818
Equity/Total Assets ratio	30%	24%

Overall, a profit of \$544,000 was produced compared to just over \$2 million in the previous year. Both years contained gains from the establishment of Advaro and the settlement of the Allied Farmers debt. Such one-off gains of

this order are unlikely in the foreseeable future and the Group will be reliant from profits from its wholly owned subsidiary Speirs Foods and shareholdings in the other trading businesses – particularly Advaro Finance and Rosa Foods.

The improved results have enabled the board to declare and pay dividends in respect of the 2014/15 year of 1 cent per share, fully imputed. However, the company's ability to pay future dividends remains constrained by the relatively high level of debt and will be dependent on our ability of the trading investments to generate good profits and cash flow.

### ***Listing***

The NZX has advised that it is not accepting any new entrants to the NZAX market and is encouraging NZAX participants to migrate to either its main board or its new NXT market. The Board is evaluating the options for maintaining a future market for trading shares and will keep shareholders updated if any changes are proposed.

### ***Board and Management***

The board comprised three non-executive directors during the year under review – Nelson Speirs, Fred Hutchings and myself. The board has worked very well and I thank my colleagues for their work on behalf of the Company.

Nelson Speirs retires by rotation this year and offers himself for re-election. The Board fully supports his re-election.

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.

The separate Speirs Foods board has continued to give that business the detailed focus and oversight. I would like to thank John McCliskie and Robert Speirs for their contribution. I would also like to thank Chris Newton, our General Manager at Speirs Foods and his team for their continued hard work in a challenging market environment.

### ***Auditors***

The auditors KPMG were appointed as auditors in 2011 following a tender process. They have carried out their responsibilities diligently. The directors have confirmed their appointment for the 2015/16 year.

### ***Outlook***

As noted above, the one-off gains we have been able to accumulate over the last two years are unlikely to be repeated in the foreseeable future and the Group will be reliant from profits from its wholly owned subsidiary Speirs Foods and shareholdings in the other trading businesses – particularly Advaro Finance and Rosa Foods. In the longer term we expect the value of these trading businesses to increase and contribute to the further growth in shareholder value. We also consider to look at any other opportunities to leverage off our existing businesses or expertise to grow activity.