

## Speirs Group Limited – Annual General Meeting – 28 November 2011

### Chairman's address to shareholders

The company's formal annual report contains strong reference from the directors concerning the recent 'tough few years' that the company has experienced as both the global and New Zealand economies coped with difficult times. Indeed, the finance industry in New Zealand - we had previously been a reasonably significant part of that industry – collapsed, while concurrently we at Speirs Group suffered the extremely disappointing outcome of our endeavours to take a highly technical food product onto the global market through our associate, Speirs Nutritionals Partners LP.

Effectively, we were hit with a 'double-whammy':

**Number one:** we sold our finance business to another corporate, for a modicum of cash and securities of, theoretically, high paper value. The securities were ultimately valueless with the result that we effectively lost years of hard work and significant investment.

**Number two:** the costs arising from the unexpected very long lead time to successfully take our omega 3 product to market forced Speirs Nutritionals to sell the Intellectual Property associated with the project. While Speirs Nutritionals' ability to sell the Intellectual Property in itself confirmed the value of the product in the eyes of very large industry players, the sale was, nevertheless, a forced sale. The sale was necessary because Speirs Nutritionals needed the cash flow, with the result that the project itself was terminated severely 'in the red'.

On a positive note, I need to report that the buyer of the Intellectual Property, a very large global corporate, is contracted to provide Speirs Nutritionals with significant rewards if and when they successfully penetrate the global market with our product. We remain cautious but hopeful.

All this has necessitated a full reassessment of our overall position and the introduction of strategies with a view to a steady recovery:

**a) Speirs Foods**

We have set about reinvigorating our Foods operations and have confidence that this business is being successfully 'turned around'. Shortly, I will invite Chris Newton, Our General Manager at Speirs Foods, to provide you with an update.

**b) Boards of Directors**

Your directors concluded that we need to restructure our boards so as to provide fresh, largely -independent and experienced, teams while at the same time retaining important background company knowledge.

Don Speirs and Trevor Roberts retire by rotation, and are not offering themselves for re-election.

It is intended that Keith Taylor will chair the parent board, with Derek Walker and Nelson Speirs making up the remainder of the three person Board. Derek Walker will be the link with Speirs Foods and will chair the Speirs Foods board. John McCliskie and Robert Speirs will complete the three person team around the Speirs Foods board table.

Both Keith Taylor and John McCliskie are fresh faces working within the Speirs Group camp. Both have strong pedigrees.

Keith Taylor has a distinguished career in commercial and community affairs. His wide experience covers a range of responsibilities including governance, finance and audit, investment management, business restructuring, acquisitions and divestments, capital raising and listings, and insurance and actuarial. For many years Keith has also been extensively and actively participating in leadership roles in both educational and Christian organisations.

Formerly Managing Director of Tower Limited, Keith currently serves on a number of boards. He holds the role of director of the Reserve Bank of New

Zealand, NZ Qualifications Authority, Gough Gough & Hamer Limited, Butland Management Services Limited, Port Marlborough Limited, and Southern Cross Medical Society. He is also the Deputy Chairman of the Earthquake Commission, a member of the Takeovers Panel, Chairman of the Government Superannuation Fund Authority and a Trustee of NZ Fire Services Superannuation Scheme.

The directors wish to issue 500,000 ordinary shares in the company to Keith Taylor with a view to his sharing with the shareholders in our future progress. This proposal is an agenda item for later in this meeting.

John McCliskie has a distinguished career in commercial and agricultural related affairs. His wide experience covers a range of responsibilities in New Zealand and globally, both in senior management and in governance roles.

Formerly president of the World Apple and Pear Association and chairman of ENZA Fruit NZ Limited (formerly NZ Apple and Pear Marketing Board), John's experience includes commercial governance roles with well known corporates and business entities. While his career path has been very broad, it records a speciality in agriculture and food related activities.

Currently, John is Deputy Chair of the Accident Compensation Commission, and a director of Network Tasman and Nelson Electricity. He chairs his family owned horticultural businesses, based primarily in the Nelson district.

Don Speirs retires after a lifetime with Speirs Group. He was a founding director, and has been with us since the inception of the company in 1966. Prior to that Don played a leading role in the businesses that became part of Speirs Group in 1966. In that sense, his working association with us goes back to 1953. I need say no more.

Trevor Roberts has been a director of Speirs Group for more than twenty years. Trevor has provided wisdom and leadership over all of those years, and will be missed.



- January/February sales
- Quality – Appearance of product
- Ownership of quality

## Market Overview

### General

- Delicatessen sales impacted by weather - **FACT**
- Delicatessen sales impacted by price – more so in some areas than others
- Price promotions linked with tastings do well on some products
- Many delicatessen items now commoditised i.e. – **Pak n Save influence on price**
- Store demographics increasingly determine product offerings
- Have general delicatessen sales declined year on year? – **NO**; some slight growth in fact
- Strong market competitors!!

### Trends

- In store made salads – Fresh with short shelf life – For us **component salads**
- Reduced serve over deli space – Move to prepacked salads – **smaller portions?**
- Brighter colour/appearance increasingly important – compared to coleslaw/potato salad
- Lighter dressed salads as opposed to heavily dressed salads
- Price increasingly important!
- Likely increased competition – small local operators

- Large retailers seeking further Gross Profit margin improvement
  - Not one but both
  - Pressure on pricing!!
- Specific product offerings to suit varying demographics
- Simple, less complex, natural products
- When consumer spending tightens – Delicatessen sales suffer

### **Speirs Foods Limited – Going Forward**

- Delicatessen will continue to be important in the medium term
- Maintenance and some growth through New Product Development
- This underwrites the business with margins on volume products
  - Mass market
- Revised approach being implemented to Foodservice Sector – Two fold
  - Large Catering Companies
  - Fast Food Retailers
- Pre-Packed salad items
- Prepared foods / Meal solutions / Ready meals
- Stefan equipment – Opportunities for sophisticated liquid product processing

### **Appointment of KPMG as Auditors**

With a view to reducing costs while maintaining integrity and quality, your directors invited four major auditing firms to tender for our audit business for the next three

years. As a result, the directors have appointed KPMG as auditors to be effective for the 2011 – 2012 year.

I wish to place on record my thanks to the audit teams from PricewaterhouseCoopers who have undertaken our audit over the years. Our relationships have always been first class and the audits undertaken in a completely professional manner.

### Outlook

It takes time to recover from the kind of setbacks that we have experienced. At best, the current 2011 – 2012 financial year will be a breakeven year, and could even be a small loss as we tidy up the remnants of the past. We have some debt maturing in about two years from now, and are already addressing that issue.

Our strategies suggest that 2012 – 2013 will be a more positive year, and that we can reasonably expect better fortunes thereafter.

Both the outgoing and incoming directors are grateful for the understanding shown by our shareholders over the past few years of difficulty. It is our objective to provide some future rewards for shareholders' patience.

I move the adoption of the annual report and accounts.

Nelson Speirs

Chairman, Speirs Group Limited

28 November 2011.