

29 August 2007

Kathryn Rogers

Director - Primary Markets
Securities Commission
P O Box 1179
Wellington

Email: kathryn.rogers@seccom.govt.nz

Dear Madam

**Reference: Disclosure Obligations under Securities Act 1978
Your letter dated 24 August 2007**

Introduction

It is clear that during the past weeks the global financial debt markets and, to a lesser extent, the global share markets, have been in disarray. It is probable that this disarray has materially and adversely impacted upon the vast majority of the participants, both large and small, in banking and finance both around the globe and in New Zealand. Along with the whole finance industry in New Zealand, Speirs Group Limited is caught up in the impact.

In New Zealand we have the added effect of the failure of several significant finance companies, accompanied by severe, adverse and often ill-informed (as to the finance industry) media commentary. This commentary, still on-going, has placed an emphasis on all finance companies in New Zealand being at risk and has failed, so far, in any significant way, to be sector selective. The media coverage has been of the finance industry as a whole, and has generally condemned the vast bulk of the participants.

The opinions of the Directors of Speirs Group Limited as to the effect upon our company of this general disarray must be taken in the broader context of the current financial climate in which we all unexpectedly find ourselves: both the impact of current global financial debt markets and the adverse public opinion currently being freely expressed in New Zealand.

Prior to the global debt market impasse and the most recent failure of three finance companies, and completely unrelated to those events, the Speirs Board had reassessed, and will continue to assess, the company's likely forward position.

Speirs Finance business

- Since 2005, Speirs has changed the emphasis of its lending to commercial clientele and away from consumer clientele. This transition is almost complete. Commercial and Industrial clients now represent more than 90% by value of our new lending business.
- In a competitive market, the value propositions offered by our company, coupled with personalised service from our national agent network, continue to allow our 'book' to grow in both quality and volume. The total 'book' currently stands at a little over \$250M.

- Overdues and the value of impaired accounts continue to drop in number and value on a monthly basis. Overdues are within industry benchmarks.
- The Speirs 'book' profile has:
 - A reasonably even geographic spread throughout NZ
 - No offshore loans
 - No loans to any single customer group that exceeds 1.4% of the total Speirs 'book'
 - No loans to any groupings in any way associated with Speirs - other than to one long-standing client (limited to \$2.1M) and to the Omega-3 venture with Massey University interests and disclosed below (limited to \$3M)
 - No loans supporting property development of any kind.
 - With minor exceptions, all loans are supported by first ranking securities over vehicles, plant and equipment that we have funded for our clientele, very often with supporting personal guarantees and/or General Security Agreements.
 - All loans provide a positive and monthly inwards cash flow to the group, ranging from \$10m to \$12m each month.

Speirs Foods business

Speirs is not a stand-alone finance business. Of equal importance to the company is the industrial/commercial/distribution arm of the company – Speirs Foods.

- Speirs Foods primarily provides fresh salads and processed vegetables to the supermarket industry, nationwide. This is a 'summer' business. We have 'wintered' through during this first half of our financial year. All profits from Speirs Foods are earned in the second half.
- In the first half of this financial year to date, volumes are on a par with last year.

Speirs Nutritionals business

This new venture (60% owned by Speirs) is in partnership with Massey University interests. It is well advanced. The plant was opened on 31 July 2007 by the Minister for Research, Science & Technology, Hon Steve Maharey. The immediate purpose of the venture is to produce and market micro-encapsulated omega-3 oil for supply to food manufacturers around the world, using leading edge technology developed and patented by Massey's Riddet Centre.

The product is drawing interest from significant food industry participants in New Zealand, Australia, North America, Europe and Asia.

While start-up costs must be absorbed in this early development phase, we expect modest revenue in the second half of this financial year, and profitability in the 2009 financial year.

Profit Expectations

As previously reported to NZX and to the public at large, Speirs will likely be impacted this year by a loss of value on tax credits available to the company due to the up-coming reduction in company tax rates commencing 1 April 2008. The company has significant tax credits available that may not be realised until a period subsequent to the introduction of the reduced tax rates. As a result the tax credits currently available to the company will lose some 9.1% of their future value.

While the finance business is returning profits, seasonal issues associated with the foods business, Nutritional's omega-3 commencement costs and the loss of value to tax credits will likely result in a modest company-wide loss for the first half of this financial year.

External Events

In July and August 2007, two significant events have clearly impacted upon both the banking and finance industries:

- The failure of several finance companies in NZ.
- The disarray of the debt and share markets worldwide – impacting upon the NZ financial scene.

Apart from its own share price, Speirs is not directly impacted by movements in the share market.

Speirs has two major funding lines:

- Secured Stock issued to the investing public; and
- a portfolio of securitised assets (rated A-1+ by Standard & Poor's) funded by a Speirs in-substance subsidiary issuing commercial paper to the NZ wholesale money markets. This arrangement has provided Speirs, and continues to provide Speirs, with funding that is perfectly matched to the inwards cash flow profiles of our securitised loan book. The programme is capped at \$130m. Certainty for the funding is provided by a standby facility from a major New Zealand bank, a support facility that has never yet been called upon during the ten year life of the programme. The standby facility is available to the in-substance subsidiary.

Each of these major funding lines supplies Speirs with its funding needs, in very nearly equal proportions.

As part of its risk management process, the Speirs Directors some years ago established a Committed Cash Advance Facility ('CCAF') from a major bank. The CCAF is capped at \$13m and may be accessed, subject to adherence to terms and conditions agreed with the bank and trustee, when unforeseen circumstances arise, similar to those that have currently arisen in the financial marketplace. This CCAF is stable and secure. It is available until 31 March 2008, when we have no reason to believe that it will not be renewed for a further twelve month term. We use it from time to time, with fluctuations on a daily basis. Drawings under this facility at 29 August 2007 amount to \$8m.

While there was a minor hesitation by secured stock investors following the first recent finance company failure, consequent withdrawals quickly abated. During that period, maturity re-investments dropped from the usual average of 78% to 71%. The second finance company failure again caused a hesitation from some secured stockholders, resulting in only a small number of withdrawal requests.

At the time of writing this letter there appears to be no reaction to another company's failure that was announced this morning. While it is not possible at the time of writing this letter to predict with precision the immediate future re-investment rate of maturing secured stock, it is the view of Directors, based on current information and assessment of the market, that there will be no significant deterioration in the re-investment rate.

Attached is a more detailed 'fact sheet' covering some critical business data. This data has been posted on our website at www.speirs.co.nz.

Current Prospectus and Investment Statement

Both the current Prospectus and the current Investment Statement for Speirs debt securities state, inter alia:

“Business Risks Facing Speirs Group Limited

The principal business risks facing the Company as they exist at the date of this Prospectus are:

- *Funding Risks*

The Company relies heavily upon funding from the New Zealand public. As the Company obtains a large part of its funding through the issue of debt securities a risk arises in that the Company could experience difficulties in raising funds at short notice to meet its lending and debt repayment commitments, particularly as a result of any adverse market perception. The Company manages this risk by maintaining sufficient liquid funds and committed cash lines with a Registered Bank to meet its commitments based on cash flow forecasts and historical cash flow requirements.”

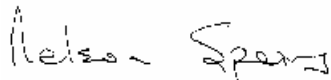
Directors’ Opinion

Other than discussed above, and having again reviewed the Company’s forward cash flow projections, it is the opinion of the Directors that:

- the Company is in compliance with Section 37A(1)(b) of the Securities Act 1978 and that the directors remain of the opinion, after due enquiry, that there are no circumstances which have arisen which would materially adversely affect the trading or profitability of the Company, or the value of the Company’s assets, or the ability of the Company to pay its liabilities within the next twelve months;
- the financial position of the Company has not materially and adversely changed during the period from the date of the most recent financial statements contained or referred to in the registered prospectus; and
- there has been no material adverse change in respect of both the Company’s liquidity position and the asset quality analysis set out in the most recent registered prospectus.

Yours sincerely

Speirs Group Limited



Nelson Speirs
Executive Chairman