# Speirs Group Limited

ANNUAL REPORT

for the year ended 31 March 2003

## Contents


Notice of Annual Meeting ........ 1

Speirs Group Directory ........ 2

Report of the Directors to the Shareholders ........ 3

Statement of Financial Performance ........ 11

Statement of Movements in Equity ........ 11

Statement of Financial Position ........ 12

Statement of Cash Flows ........ 13

Notes to the Financial Statements ........ 15

Auditors' Report ........ 32

Directory of Speirs Finance Agencies ........ 33

# Notice of Annual Meeting

**Notice is hereby given that the Annual Meeting of Shareholders of Speirs Group Limited ("the Company") will be held at 10.00 a.m. on Monday 30 June 2003 at Caccia Birch House, 130 Te Awe Awe Street, Palmerston North.**

Morning tea will be served at the conclusion of the Annual Meeting.

## BUSINESS

1. To receive and consider the Annual Report for the year ended 31 March 2003.
2. To elect Directors to the Board.

   Messrs. S H Hewitt, D P Speirs and R N Speirs retire from the Board of Directors by rotation and, being eligible, offer themselves for re-election.
3. To set Directors' Fees for the ensuing year.
4. To record the re-appointment of PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration for the ensuing year.
5. To transact any other business which may be properly submitted to the Annual Meeting.

By order of the Board

R Nelson Speirs, Executive Chairman
Palmerston North, New Zealand
26 May 2003

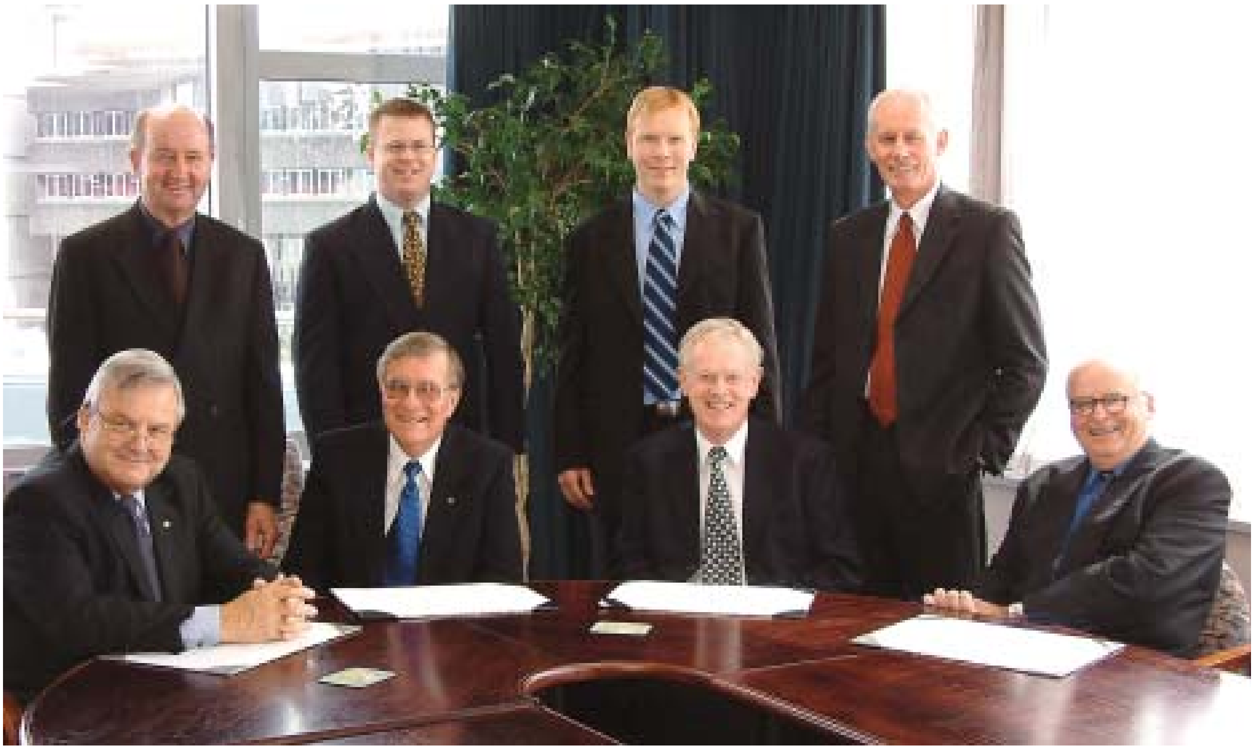
## NOTES

**1. Voting Rights:**
All Shareholders are entitled to attend the meeting, and are entitled to one vote on a "show of hands" or by "voice vote", and to one vote for each share held in the event of a "poll".

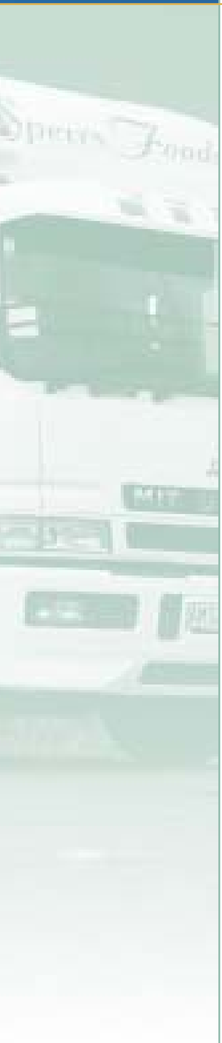
**2. Proxies:**
A Shareholder of the Company entitled to attend and vote is entitled to appoint a proxy to attend and vote on the Shareholder's behalf. A proxy need not be a Shareholder of the Company. If you wish you may appoint as your proxy the Chairman of the meeting. A proxy form is enclosed for each Ordinary Shareholder. Proxy forms, to be effective, must be received at the Registered Office of the Company, together with the Power of Attorney or other authority under which they are signed, not later than 48 hours before the time of the meeting.

The Registered Office of the Company is on Level 3, Farmers' Mutual House, 68 The Square, Palmerston North (P O Box 400).

**3. Optionholders:**
Optionholders are welcome to attend the Annual Meeting as non-voting participants.



*Board of Directors: standing (left to right): Brian Ogden, Robert Speirs, David Speirs, Steve Hewitt*
*seated (left to right): Trevor Roberts, Donald Speirs, Nelson Speirs, John Wilson*



# Speirs Group Directory

## DIRECTORS

The Board of Directors of the Company is comprised of five Non-Executive Directors and three Executive Directors. All Directors have served for the whole year.

### Non-Executive Directors

Donald Patterson Speirs, *Deputy Chairman*
8 Oakland Avenue, Wanganui

John Arthur Bracken Wilson, F.C.A., A.C.I.S.,
14 Oakland Avenue, Wanganui

Brian Walter Ogden,
32 Armagh Terrace, Marton

Trevor Athol Roberts, LL.B., A.A.MINZ.
12 Observatory Close, Whitby

Robert Nelson Speirs
12 Astrid Court, Palmerston North

### Executive Directors

Richard Nelson Speirs, F.C.A., *Executive Chairman*
47 Te Awe Awe Street, Palmerston North

Stephen Howard Hewitt, B.C.A., Executive Director
175 Chelsea View Drive, Birkenhead, Auckland

David John Speirs, Executive Director
274 Millricks Line, Palmerston North

### Audit Committee

John A B Wilson, *Chairman*
Trevor A Roberts

### Remuneration Committee

Donald P Speirs, *Chairman*
John A B Wilson
Trevor A Roberts
R Nelson Speirs

### Credit Committee

Stephen H Hewitt, *Chairman*
R Nelson Speirs
John A B Wilson
Trevor A Roberts

## REGISTERED OFFICE

Level 3, Farmers' Mutual House
68 The Square, Palmerston North
P O Box 400, Palmerston North
Freephone: 0800 65 45 45
Telephone: 06 350 6000
Facsimile: 06 350 6020

## SHARE REGISTRAR

Computershare Registry Services Limited
Private Bag 92119
Auckland 1020
Telephone: 09 488 8700
Facsimile: 09 488 8787
Investor Enquiries: 09 488 8777

## DIVISIONAL AND BRANCH OFFICES

Speirs Finance Investments
Level 3, Farmers' Mutual House
68 The Square, Palmerston North
P O Box 400, Palmerston North
Telephone: 0800 65 45 45
Facsimile: 06 350 6020
Email: investments@speirs.co.nz
Website: www.speirs.co.nz

Speirs Finance Lending
Level 1, Suite 103, AA Centre,
29 Waterloo Road, Lower Hutt
P O Box 30-283, Lower Hutt
Telephone: 0800 77 34 77
Facsimile: 04 570 8412
Email: enquiries@speirs.co.nz
Website: www.speirs.co.nz

Speirs Foods
Hair Street,
Marton
P O Box 108, Marton
Telephone: 0800 366 324
Facsimile: 06 327 5717
Email: sales@speirs.co.nz

## ADVISERS/SERVICE SUPPLIERS

*Auditors*
PricewaterhouseCoopers

*Solicitors*
Chapman Tripp Sheffield Young

*Bankers*
Bank of New Zealand

*Trustee for Debt Obligation Holders*
Perpetual Trust Limited

## Report of the Directors to the Shareholders

On behalf of the Board of Directors of Speirs Group Limited (the "Company"), we present the Directors' Annual Report and the Company's Financial Statements for the year ended 31 March 2003.

### ACTIVITIES

Over a period of many years the Company has concentrated on two important but unrelated areas of commercial activity within New Zealand – fresh food production and distribution (Speirs Foods) and asset backed financing (Speirs Finance). In both these commercial activities the Company has, to a significant extent, played something of a pioneering role and has, we believe, earned the respect of clientele, others involved in the industries and the public alike.

The year under review has seen the Company grow its overall market and (probably) market share in both activities. We have continued our policy of 'sticking to our knitting' with a view to improving and refining our efficiencies and our effectiveness. As this objective involves a process that has no end, we will continue to pursue it in the coming year. We acknowledge that to become the most effective and most efficient operators in both our industries is a challenge. Yet we intend to be.

Each activity is discussed in more detail later in this report.

Occasionally, commentators question the wisdom of our being involved in two such unrelated industries. Our answer is simple. We have developed considerable expertise in them both. We have invested considerable cash, time and intellectual capital in them. We intend that our Shareholders should enjoy the fruits of that investment.

### FINANCIAL STATEMENT PRESENTATION

Something in the order of thirty percent of the funding required to enable Speirs Finance to go about its day to day business is provided by the wholesale money markets through a 'securitisation' programme (discussed in more detail later in this report under 'Speirs Finance' and in 'Note 2 to the Financial Statements).

As part of the securitisation programme a significant portion of the Finance Receivables under the Company's administration falls within the ownership of another company - Speirs Securities Limited. Although Speirs Securities Limited is a separate legal entity in its own right and is controlled by its own Board, it has contracted the administration of its day to day affairs to the Company. Speirs Securities Limited is not technically a legal subsidiary of the Company but, because of the close relationship between the two companies as to objectives, management and day to day activity, accounting standards properly judge it to be an 'in-substance' subsidiary of the Company. Accordingly, our financial statement presentation shows separate financial statements for the Company alone (the "Parent Company") and consolidated financial statements that include both the Company and its 'in-substance' subsidiary (the "Group").

### RESULTS

Both Speirs Finance and Speirs Foods have increased volumes during the year, with resultant increases in underlying trading surpluses.

After a study of bad debt experience over the past six years, the Directors adjusted general provisioning to 0.70% of aggregate Finance Receivables (being our weighted average net bad debt experience over the six year period of 0.60% of aggregate Finance Receivables plus a margin of 0.10%).

The Net Surplus after taxation for the year was $1,052,861 (2002 $642,606). The year's surplus after the deduction of the dividends paid, caused Shareholders' Equity to grow to $11,060,879 (2002 $10,760,047) which is an increase of 3%. Total Assets increased to $304,880,174 (2002 $206,221,130), an increase of 48%.

### CAPITAL STRUCTURE

The 8,734,576 Company shares on issue are held by 754 Shareholders. This share structure is represented by Equity in the Company amounting to $11,060,879. No change in the basic capital structure of the Company took place during the year.

The Company's shares are quoted on the Unlisted Trading Screen of NZSE Limited (formerly known as the New Zealand Stock Exchange). Should Shareholders wish to buy or sell Company shares, they should contact their Sharebroker. During the year a small number of shares have traded at prices ranging from 75 cents to 93 cents per share.

Since the Company structure is primarily that of a finance company, it is critical that our underlying ratio of 'debt to equity' be maintained at a level considered appropriate for companies operating in the finance industry. The Directors have recognised the need for enhancement of our equity and permanent funding base as the aggregate of our Finance Receivables, and with it the aggregate of our borrowing - in both the Company and the Group - has grown.

In recent years this enhancement has been provided by the provision of 'mezzanine' financing with the issue of Subordinated Notes. The repayment of maturing Subordinated Notes coupled with a new issue of such notes during the year brought the total Subordinated Notes on issue to $14,280,989.

The Directors have decided to permanently enhance the underlying long-term strength of the Company by issuing up to $20,000,000 in perpetual Bonds. The Bonds will, at an early date, be offered as an investment opportunity to all traditional investors in the Company's various securities, and to the public.

Details of the offer will be fully set out in a Prospectus to be issued. The Prospectus will be provided to all Company Shareholders.

**DIVIDENDS**

A fully imputed dividend of 5 cents per share was paid on 1 July 2002, and a further fully imputed dividend of 4 cents per share was paid on 20 December 2002.

Subsequent to balance date the Directors have declared a fully imputed dividend of 5 cents per share to be paid on 30 June 2003.

**DIRECTORS**

The Company

It is inescapable that as the years pass, the 'older' must give way to the 'younger'. The Board has for some time followed a policy of developing a strong complement of senior management personnel, so as to be sure that younger executives are available and in place to assume top management roles in a timely manner.

Nelson Speirs retired as Chief Executive Officer of the Company, effective from 7 October 2002, but remained in a full time management consulting role until 31 March 2003. He now heads the Company as Executive Chairman of the Board of Directors.

Former Chairman Don Speirs has taken up the Deputy Chairmanship role from John Wilson, who remains on the Board.

At the time of these changes, the Board passed the following resolution (Nelson Speirs, Don Speirs and John Wilson abstaining):

*The meeting of the Board held on Monday 7 October 2002 represents a milestone in the history of the Company. On that day Nelson Speirs retired as Chief Executive Officer of the Company and assumed the office of Executive Chairman, Don Speirs retired as Chairman (but will remain a member of the Board) and John Wilson retired as Deputy Chairman (but will also remain a member of the Board).*

*Nelson and Don have spent all of their working lives as employees, Managers and Directors of the Speirs Group of Companies in their various forms and incarnations, taking over effective management of the predecessor to the existing company in 1960. John Wilson joined the Board as a Director in 1980.*

*Nelson, Don and John have been at the centre of the development of the Company. In the case of Nelson and Don for over forty years, and in the case of John for nearly twenty-five years.*

*During that time the Company has developed from a medium sized family timber business, through various phases, and at times crises, to become a public company that is a significant participant in the Finance and Food industries.*

*The Company has, unlike so many of its former competitors and so many business institutions that were national identities thirty years ago, survived economic restructuring and successive economic storms, maintaining the confidence of shareholders, depositors, customers and clients.*

*That it has done so has been in no small measure due to the dedication and steady hands of those three directors who have been at the heart of the activities of the Board and who have been assiduous in the maintenance of the integrity and corporate culture of the Company.*

*Their fellow Board members take this opportunity to formally recognise their service to the Company and to express their pleasure that Nelson, Don and John will continue in their new capacities to serve the Company and its various stake holders, and record that it has been, and will continue to be, a pleasure and an honour to serve with them around the Board table.*

Executive Directors Steve Hewitt and David Speirs now take complete responsibility for day to day management as General Managers of Speirs Finance and Speirs Foods respectively. They each report directly to the Board of Directors and have direct liaison with the Executive Chairman. Steve and David are both well experienced in their respective industries and have the complete confidence of the Board.

In accordance with clause 39 of the Company's constitution, Messrs. S H Hewitt, D P Speirs and R N Speirs retire by rotation. Being eligible, they offer themselves for re-election to the Board.

Speirs Securities Limited

The Directors of Speirs Securities Limited are Mr A J Kells - a Palmerston North Chartered Accountant and Sharebroker, and Mr M B Rowe - a Palmerston North Solicitor, together with R N Speirs, the Speirs Group Limited Executive Chairman. We are grateful for the expertise, experience and wisdom that these men bring to their role as Directors of this independent (but 'in-substance' subsidiary) company.

**REMUNERATION OF DIRECTORS**

Directors' remuneration (including an allowance for the use of Company vehicles) received, or due and receivable during the year, is as follows:

| | | |
|---|---|---|
| R Nelson Speirs | Executive Chairman | $240,000 |
| Donald P Speirs | Deputy Chairman | $105,920 |
| Brian W Ogden * | Non-Executive Director | $65,000 |
| Trevor A Roberts | Non-Executive Director | $27,000 |
| Robert N Speirs | Non-Executive Director | $24,000 |
| John A B Wilson | Non-Executive Director | $30,000 |
| Stephen H Hewitt | Executive Director | $176,667 |
| David J Speirs | Executive Director | $160,000 |

*Brian W Ogden is employed on a part time basis by the Company.

The Directors recommend that the aggregate amount of Directors' fees payable to the non-executive Directors for the ensuing year remain at $120,000.

**REMUNERATION OF EMPLOYEES**

The number of employees, other than Executive Directors, receiving remuneration exceeding $100,000 during the year under review are:

| Remuneration Band | Number of Employees |
|---|---|
| $140,000 - $150,000 | 1 |

**AUDITORS**

In accordance with Section 200 of the Companies Act 1993 the Auditors, PricewaterhouseCoopers, continue in office.

**COMMITTEES OF THE BOARD**

The Board has three standing committees, for audit, remuneration and credit approvals.

The Audit Committee comprises John Wilson (Chairman of the Committee) and Trevor Roberts, with Nelson Speirs (Executive Chairman), our Company's Internal Auditor and partners and senior staff of PricewaterhouseCoopers (our Company's External Auditors) attending when required. During the year the Audit Committee met on two occasions.

The function of the Audit Committee is to assist the Board of Directors:

- in establishing and reviewing the protocol agreed to with both the Internal and External Auditors;
- in carrying out its responsibilities under the Companies Act 1993 and the Financial Reporting Act 1993 regarding Management's accounting practices and controls relative to the Company's financial position; and
- to review and make appropriate inquiry into the audits of the Company's financial statements by both the Internal and External Auditors.

The Remuneration Committee comprises Donald Speirs (Chairman of the Committee), Trevor Roberts, John Wilson and Nelson Speirs (Executive Chairman). During the year the Remuneration Committee met on two occasions.

The function of the Remuneration Committee is to assist the Board of Directors:

- in establishing appropriate levels for Directors' fees to be recommended for adoption by the Annual Meeting of Shareholders;
- in establishing appropriate terms of employment and remuneration for Executive Directors; and
- in advising appropriate terms of employment and remuneration for senior Executive Officers

The Credit Committee comprises Steve Hewitt (Chairman of the Committee), John Wilson, Trevor Roberts and Nelson Speirs (Executive Chairman). During the year the Credit Committee met on numerous occasions, usually by telephone conference.

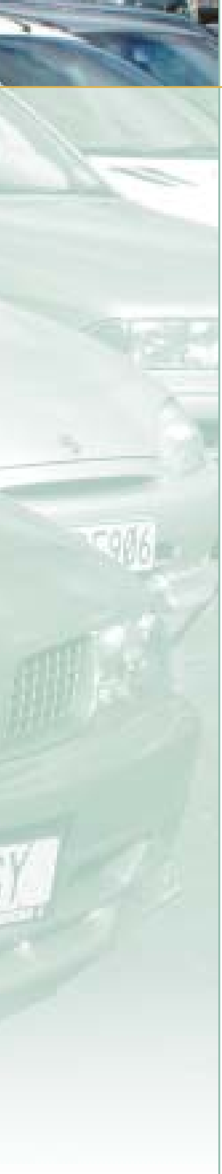
The function of the Credit Committee is to consider and approve or decline credit applications from prospective clients at levels beyond the approval limit granted to the General Manager Speirs Finance.

**OPTIONS TO PURCHASE SHARES IN THE COMPANY**

Directors hold Options to purchase up to 2,175,000 shares in the Company for a price set at $1 cash for each share. Options held by Directors, and the date the Options expire are:

| | Options Held | Date Options Expire |
|---|---|---|
| D P Speirs | 1,000,000 | 30 September 2006 |
| R N Speirs | 1,000,000 | 30 September 2006 |
| D J Speirs | 100,000 | 30 September 2006 |
| S H Hewitt | 75,000 | 30 September 2003 |

*Audit Committee members Trevor Roberts and John Wilson*





## INTERESTS REGISTER

The following entries were recorded in the Interests Register this year:

R Nelson Speirs declared:

- his interest, as a Director of 'in-substance' subsidiary Speirs Securities Limited, in Directors' resolutions passed on 29 April 2002 with regard to modifying the transaction documentation under the Company's securitisation programme
- the purchase on market by a family trust of 10,000 ordinary shares in Speirs Group Limited
- his interest, as a director of another company, in a financial facility of $24,750 provided at market rates by Speirs Group Limited

Brian W Ogden declared:

- the purchase on market by a family member of 1,000 ordinary shares in Speirs Group Limited

Robert N Speirs declared:

- his interest, as a director of two other companies, in financial facilities of $24,750 and $34,750 respectively, provided at market rates by Speirs Group Limited

Donald P Speirs declared:

- the purchase on market by a family trust of 10,000 ordinary shares in Speirs Group Limited
- the purchase on market by family members of 10,000 ordinary shares in Speirs Group Limited.

## STAFF

Experience has taught us over the years that by far the most valuable Company asset is, by its very nature, 'off-balance sheet'. That asset is, of course, the employment of enthusiastic, able, highly trained and experienced staff of the highest quality. The employment and retention of such staff is the most critical benchmark for any business organisation.

The policy of Speirs Group Limited is to recruit and retain men and women of integrity and with skills that are relevant to the two industries in which we work. The very nature of both our industries calls for professionalism in our people. We seek, and expect, the highest professional standards.

As the Company grows so does its complement of staff. Staff number some forty-five individuals at Speirs Finance (Palmerston North and Lower Hutt) with a further thirty-five involved and working with our nation-wide Agency network (see under Speirs Finance below). Speirs Foods employ seventy-five permanent staff members at Marton with the numbers rising to one hundred and twenty-five when we recruit extra staff at peak summer times. Our Company makes a most important contribution to the Marton and surrounding district as an employer.

The Speirs Group Limited Directors believe that the professionalism and competence of our people provides substantial benefits to the Company and is readily apparent to the interacting public and to our clientele. Our staff's contribution to the Company's continuing well being is immense. Our thanks go to them all.

## SPEIRS FINANCE

Speirs Finance, a commercial division of Speirs Group Limited and a member of the New Zealand Financial Services Federation, lends funds to qualifying borrowers throughout New Zealand. Security for the funding is almost always provided to the Company by the borrower by way of perfected security interests in or registered mortgages over assets

## SHAREHOLDING IN THE COMPANY

Shareholders owning 5% or more of the issued voting capital in the Company are:

| | Fully Paid Ordinary Shares | Percentage of Issued Voting Capital |
|---|---|---|
| R N Speirs, B W Ogden | 705,489 | 8.08% |
| D P Speirs, K J O'Sullivan | 642,273 | 7.35% |
| R N Speirs, D P Speirs | 513,222 | 5.88% |
| D P Speirs, R N Speirs | 484,790 | 5.55% |
| | 2,345,774 | 26.86% |

The number of shares held by Directors of the Company:

| | |
|---|---|
| D J Speirs | 155,387 |
| B W Ogden (jointly with E R Ogden) | 75,000 |
| R N Speirs | 72,679 |
| J A B Wilson | 40,600 |
| Robert N Speirs | 33,787 |
| D P Speirs | 21,524 |
| T A Roberts | 2,600 |
| S H Hewitt | - |

D P Speirs, R N Speirs, D J Speirs and Robert N Speirs are each one of a number of potential beneficiaries of Trusts holding 642,273, 805,489, 1,127,063 and 1,318,711 shares respectively.

belonging to or in the possession of the borrower. The quality and nature of the assets over which security is granted must meet the Company's designated standards, while the extent of the funding to any one client or to any one group of clients is monitored to meet the Company's approved criteria.

Typically, assets funded in this manner include passenger cars, light commercial vehicles, heavy commercial vehicles, earthmoving and agricultural vehicles, plant and machinery. Our portfolio also includes some lending by way of first mortgage over residential properties. For many years our lending emphasis has been to finance passenger cars and light commercial vehicles, and this emphasis still pertains. Nevertheless, as the Company has grown in size and influence in the New Zealand marketplace, opportunities have arisen to further develop as a broader based asset-backed financier and to increase our range of qualifying assets on which to advance funds. Resulting risk profile movements have been addressed.

To facilitate the marketing of our financial products, and to more efficiently and effectively manage and control the resulting Finance Receivables in the Company portfolio, we have reviewed our operations and set up a new operating/administrative structure.

All marketing is controlled from our Lower Hutt office, where we have a team of about thirty marketing, sales support and collections staff. Our Lower Hutt office administers and supports a network of independent Speirs Agencies that cover all significant markets within New Zealand. Twenty-seven principals own and operate the agencies, who together employ a further seven staff members. Details of the Agencies are scheduled on page 33. All Agents are well experienced in asset-backed financing in New Zealand and have in-depth knowledge of their own geographical market area. In the year under review total funding provided to our clientele exceeded $191 million.

At 31 March 2003 total Finance Receivables and Assets Leased to Others – the asset-backed funding managed from Lower Hutt – increased to $269 million. Lending was well spread throughout New Zealand, with the main centres of Auckland, Wellington, Christchurch and the hinterlands surrounding them each exceeding twenty percent of the portfolio, while the provincial areas of Waikato, Hawkes Bay, Taranaki, Manawatu and Otago all figured prominently.

In November 2001 the Company 'migrated' its Receivables portfolio database onto our own proprietary and specially designed computer system that we call 'Focus'. Focus is an important integral and increasingly efficient tool in the management of our Receivables portfolio.

Without marketing, there is no business. At the same time, it is equally true that funding is the lifeblood of a finance company. Our Company is no exception. All funding for our operations is administered and controlled by a small staff at our Palmerston North 'home' office.

Speirs Group Limited is a continuous issuer of debt securities in the New Zealand market place. In particular, the Company continually issues Secured Stock to investors throughout the country. Support for Speirs Secured Stock during the period under review has been excellent, with the value of the investments lodged with the Company under this heading

*Left to right: Steve Hewitt (General Manager, Finance), Lee Simpson (Finance Services Manager), Mark Mountcastle (National Lending Manager), Leanne Ranson (Registrar and Retail Funds Manager)* growing from $121 million to $185 million during the year. We continue to be strongly supported in our Secured Stock offerings by the thousands of individual investors who have been placing their funds with the Company for very many years. This year we have experienced a surge of deposits from new Speirs investors, many of whom responded to advice they received from more than one hundred and sixty supporting Sharebrokers and other Professional Advisors from all around the country. This has been particularly encouraging to us.

Such funding support comes from all over New Zealand. In all we manage about fourteen thousand Secured Stock accounts, with a geographical spread concentrated on our traditional home areas in the southern North Island. In value, more than 30% of our Secured Stock portfolio comes from supporters living in the Manawatu/Rangitikei/Wanganui region, 21% from the greater Wellington region, with greater Auckland and Christchurch, Hawkes Bay, Waikato, Taranaki, Bay of Plenty and mid-Canterbury all contributing significantly. We have been most gratified by this support.

About thirty percent of our overall required funding is provided through direct access to the New Zealand wholesale money market by way of a securitisation funding facility operated through the banking system. The securitisation facility is of particular advantage to the Company. A complex set of 'rules' (see Note 2 of the Financial Statements for further technical information) agreed between the Company and certain counter-parties – one of whom is our 'in-substance' subsidiary Speirs Securities Limited - provides the framework to allow the free flow of the bulk of the funding required by the Company to finance certain qualifying vehicles. For these qualifying vehicles, the availability of funds is certain. Costs are geared to the cost of wholesale funds. The funding lines are guaranteed for the life of the finance 'paper' that has been funded, and so we have a perfect timing 'match', as well as cost effective funding. The product is specifically tailor-made to suit our requirements.

There is a cost associated with securitisation. We are now well advanced in the eight-year write-off – in excess of $250,000 annually - of heavy initial set-up costs. Complex and costly Focus software programmes have been written to provide the administrative tools necessary to manage the programme. Education and training of staff to specific and specialised disciplines has been necessary.

Speirs Finance information technology systems are all controlled from Palmerston North. Our receivables and borrowings databases are managed by our in-house and Company owned Focus IT system. Focus is a Jade based system, designed specifically to Speirs specifications by Ashburton Computer Associates, controlled from Palmerston North and with the 'serious' hardware centred at the Jade centre in Christchurch. While final migration of our databases to Focus took place in November 2001, it has been during the year under review that we have been able to refine our systems and undertake the necessary staff training to allow us to utilise the system as we would wish. Focus allows instant information to at all times be available to our people in both Lower Hutt and Palmerston North, or wherever they may be in the country, and to all our Agents in the field. Its design allows for further sophisticated development in the future.

Speirs Finance has restructured itself to confidently compete in its chosen market place. The year under review has been satisfactory, but has really been a year in which Speirs Finance has positioned itself for the future. We look forward to that future with anticipation and confidence.

## SPEIRS FOODS

Speirs Foods is the Company's fresh salad and fresh vegetable processing and distribution division based in Marton, the centre of the Rangitikei farming district.

As a processor of fresh food that is primarily sold to the public at supermarket delicatessen and produce departments, as well as being provided to caterers and other food service operators, Speirs Foods is constantly concerned with quality product control, high hygiene standards and prompt and efficient service.

The supermarket industry has quite properly always insisted on high standards of supply, to be provided at the lowest possible cost. Caterers and the food service industry require equally high standards. The corporate activity resulting in the merging of the Foodtown, Countdown and Woolworths retail operations late in 2002 concentrated more buying power into fewer hands, thus emphasising these truths.

Speirs Foods is proud to work to those high standards. It has been our constant endeavour to produce the highest quality products at the best possible price to the end user. We strive to be innovative and , if we possibly can, to delight our clientele with our products and our service. We have avoided any form of price increase for a number of years, in spite of the gradual inflationary trend affecting our cost structure.

Speirs Foods is a processing and distribution operation. Volume matters, as greater volumes allow for more production and distribution efficiencies, better costing and, ultimately, higher profits. Volume is achieved by providing quality products, fast service and holding our price. That is the business that we are in.

Our products are fresh salads and processed fresh vegetables.

The Company was the pioneer, and remains a leader, in the salad processing and distribution business in New Zealand, processing and delivering hundreds of thousands – indeed, millions - of servings of salads to the market place each and every month. Our salad products can be found at most supermarket's delicatessen counters in New Zealand, while

thousands of New Zealanders eat our salad products at functions and work places daily. Salads sold through supermarket delicatessens are not easily branded. For this reason most buyers are unaware of the real source of their luncheon or dinner menu. Produce department products are more easily branded, although supermarket proprietary brands are common place on produce shelves as well. Look for our 'Country Choice' and 'Pacific Gourmet' labels.

The horticultural fields of the Horowhenua, Rangitikei and Manawatu districts are an excellent source of vegetables and herbs for our products. We have long term contractual arrangements with many growers. Chilled from field to factory, all inwards product must pass quality inspection before acceptance. Our processing plant, systems and quality standards are of the highest order, quality checked not only by our own staff, but also monitored regularly by both the New Zealand authorities and our colleagues from France, whose systems we use and who provide us with the latest market and processing technological information.

Distribution is a key element. We cover New Zealand almost daily with our distribution system. All products are delivered to supermarkets, workplaces and food service operators in chilled condition and on a daily basis – throughout the country.

New Information Technology systems, planned with and supplied by Ernst & Young, were installed throughout Speirs Foods operations during the latter part of the year under review. While no particular benefit accrued during the year, the systems will provide continuing operational advantages in the future.

This is an exciting industry. We believe that the growth potential is good. We do not discount the capacity or the strength of our competitors. Volumes have increased during the year under review and we expect that pattern to continue.

**PROPOSAL TO GIVE FINANCIAL ASSISTANCE TO AGENTS**

The Company proposes to provide financial assistance to the Company's various Finance Agencies (see Page 33), each of whom are party to an Agency Agreement, by way of loan facilities for the purchase of existing shares in the Company. The terms of the financial assistance, which is to be made pursuant to section 76(1)(b) of the Companies Act 1993, are as follows:

(i) The Company will make loan facilities available to the Agents to assist them in purchasing existing issued shares in the Company. The facilities will be secured by way of security interest over the purchased shares. The maximum amount of each facility will be limited to 70% of the current market value of the shares being purchased (which will be fixed for a definite period). The maximum total financial assistance available per Agent will be $35,000 and the minimum size of any facility the Company will provide will be $3,500.

(ii) Interest on the facilities provided will accrue at a commercial rate that is fair and reasonable to all parties. The facilities will be repaid over a maximum term of 4 years and will be payable in full upon the termination of the agency agreement with the relevant Agent. The availability of loan facilities from the Company will be subject to review, or complete withdrawal, by the Company at any time at its sole discretion.

*Gavin Zander, Day Shift Supervisor and David Speirs, General Manager Speirs Foods*

(iii) The facilities will be available for future use, if or when, Agents choose to purchase shares. The Company will not be offering any encouragement or advice in respect to purchase decisions.

The text of the resolutions passed by the board on 26 May 2003 in respect of the proposed financial assistance, and as required by section 78(1) of the Companies Act 1993, is as follows:

"The Board resolved:

- that the Company should provide such financial assistance;
- that providing such financial assistance is in the best interests of the Company and is of benefit to those shareholders not receiving the financial assistance;
- that the terms and conditions under which such financial assistance is to be provided are fair and reasonable to both the Company and those shareholders not receiving the financial assistance; and
- that the Board is satisfied that the Company will, immediately after giving such financial assistance, satisfy the solvency test applied under section 77 of the Companies Act 1993."

This statement is a disclosure document for the purpose of section 79 of the Companies Act 1993 and is given to shareholders of the Company pursuant to section 78(5) of the Companies Act 1993.

## OUTLOOK FOR THE FUTURE

Last year we reported that *the Company is in a strong position in both its markets, and funding is secure. Our objective for the next twelve months is to simply build upon the solid base that has been developed in both our Food and Finance divisions. Consolidation is the order of the day. The Directors are of the view that we are well placed to compete strongly and profitably in the year ahead* .

The Directors believe that the Company has delivered on that statement. Yet, this year we make the same statement. And we add to it the comments made above under the heading 'Capital Structure' regarding our intention to address the long term underlying capital needs of the Company. The strength and strategic positions of both our businesses have now been established and are secure. While there will be some natural growth in the year ahead, the emphasis is being placed on financial stability and profit enhancement. We look forward to the challenge.

| | |
|---|---|
| R Nelson Speirs | Donald P Speirs |
| Executive Chairman | Deputy Chairman |

26 May 2003

# Financial Statements

## STATEMENT OF FINANCIAL PERFORMANCE

*for the year ended 31 March 2003*

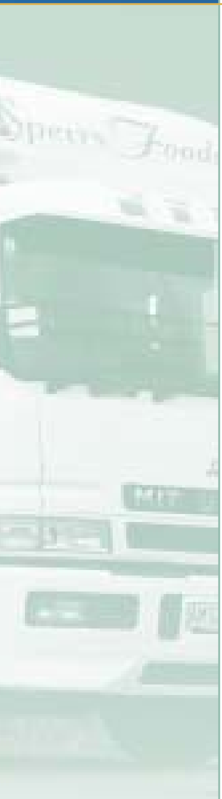
| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Total Operating Revenue | 3 | 42,343 | 33,321 | 36,301 | 27,097 |
| Surplus before Taxation | 3 | 1,568 | 947 | 1,568 | 947 |
| Taxation | 4 | (515) | (305) | (515) | (305) |
| Net Surplus after Taxation | | 1,053 | 642 | 1,053 | 642 |

## STATEMENT OF MOVEMENTS IN EQUITY

*for the year ended 31 March 2003*

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Equity at Beginning of the Year | | 10,760 | 6,661 | 10,760 | 6,661 |
| Net Surplus after Taxation | | 1,053 | 642 | 1,053 | 642 |
| Revaluation of Investment Property | | 34 | 39 | 34 | 39 |
| Total Recognised Revenues and Expenses | | 1,087 | 681 | 1,087 | 681 |
| Increase in Paid Capital | | | | | |
| Conversion of Convertible Notes | 13 | - | 4,000 | - | 4,000 |
| Dividends Paid | | (786) | (582) | (786) | (582) |
| | | (786) | 3,418 | (786) | 3,418 |
| Equity at End of the Year | | 11,061 | 10,760 | 11,061 | 10,760 |

*The notes on pages 15 to 31 form part of these financial statements.*



## STATEMENT OF FINANCIAL POSITION
*as at 31 March 2003*

| | | Group | | Parent Company | |
|---|---|---|---|---|---|
| | Notes | 2003<br>$'000 | 2002<br>$'000 | 2003<br>$'000 | 2002<br>$'000 |
| **Assets** | | | | | |
| Cash and Other Current Assets | 5 & 15 | 11,395 | 5,700 | 8,689 | 4,183 |
| Short Term Deposits | 15 | 6,478 | 1,463 | 4,243 | - |
| Taxation Refund Due | 15 | 450 | - | 450 | - |
| Finance Receivables | 6 & 15 | 257,991 | 174,740 | 162,971 | 102,863 |
| Assets Leased to Others | 7 | 10,537 | 6,079 | 10,537 | 6,079 |
| Investment Properties | 8 | 1,244 | 1,210 | 1,244 | 1,210 |
| Cash at Bank Pledged to Others | 2 & 15 | 3,805 | 3,596 | 3,805 | 3,596 |
| Investments | | 735 | 615 | 735 | 615 |
| Future Taxation Benefit | 4 | 1,870 | 2,405 | 1,870 | 2,405 |
| Subordinated Debt - Securitised Assets | 9 & 15 | - | - | 10,146 | 15,449 |
| Property, Equipment, Plant & Vehicles | 10 | 9,417 | 9,281 | 9,417 | 9,281 |
| Intangible Assets | 11 | 958 | 1,133 | 958 | 1,133 |
| Total Assets | | 304,880 | 206,222 | 215,065 | 146,814 |
| **Liabilities** | | | | | |
| Trade Accounts Payable | 15 | 3,926 | 2,814 | 3,845 | 3,827 |
| Taxation Payable | 15 | - | 129 | - | 129 |
| Other Accrued Liabilities and Provisions | 15 | 225 | 150 | 225 | 150 |
| Accrued Employee Entitlements | 15 | 81 | 79 | 81 | 79 |
| Commercial Paper | 12 & 15 | 89,734 | 60,421 | - | - |
| Secured Stock | 12 & 15 | 185,572 | 121,326 | 185,572 | 121,326 |
| Subordinated Notes | 12 & 15 | 14,281 | 10,543 | 14,281 | 10,543 |
| Total Liabilities | | 293,819 | 195,462 | 204,004 | 136,054 |
| **Equity** | 14 | 11,061 | 10,760 | 11,061 | 10,760 |
| Total of Equity and Liabilities | | 304,880 | 206,222 | 215,065 | 146,814 |

*The Board of Directors of Speirs Group Limited authorised these financial statements for issue on 26 May 2003.*

Signed on behalf of the Board of Directors

R Nelson Speirs
*Executive Chairman*
26 May 2003

Donald P Speirs
*Deputy Chairman*

*The notes on pages 15 to 31 form part of these financial statements.*

## Financial Statements

STATEMENT OF CASH FLOWS

*for the year ended 31 March 2003*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| **Cash Flows from Operating Activities** | | | | |
| *Cash was provided from:* | | | | |
| Dividend Income | 67 | 102 | 67 | 102 |
| Interest Income | 24,341 | 19,373 | 16,203 | 13,637 |
| Operating Lease Rentals | 3,122 | 2,273 | 3,122 | 2,273 |
| Sales by Trading Divisions | 11,436 | 10,218 | 11,436 | 10,218 |
| Fee and Other Income | 2,724 | 1,112 | 4,820 | 2,624 |
| *Cash was applied to:* | | | | |
| Interest Expense | (17,785) | (12,786) | (12,058) | (8,838) |
| Income Taxes Paid | (579) | (612) | (579) | (612) |
| Payments to Suppliers and Employees | (16,968) | (15,021) | (16,602) | (13,630) |
| Net Cash Flows from Operating Activities | 6,358 | 4,659 | 6,409 | 5,774 |
| **Cash Flows from Investing Activities** | | | | |
| *Cash was provided from:* | | | | |
| Repayment of/(Investment in) Subordinated Debt - Speirs Securities Limited | - | - | 5,359 | (981) |
| Repayment of Finance Receivables | 106,980 | 99,883 | 36,427 | 45,037 |
| Sale of Assets Leased to Others | 3,784 | 1,969 | 3,784 | 1,969 |
| Sale of Finance Receivables to Speirs Securities Limited | - | - | 93,639 | 61,500 |
| Sale of Property, Equipment, Plant & Vehicles | 22 | 82 | 22 | 82 |
| *Cash was applied to:* | | | | |
| Investment in Cash at Bank Pledged to Others | (209) | (201) | (209) | (201) |
| Investment in Finance Receivables | (191,273) | (136,027) | (191,273) | (136,027) |
| Investment in Intangible Assets | (185) | (376) | (185) | (376) |
| Movement in Balance Owing to Speirs Securities Limited | - | - | (3,249) | - |
| Purchase of Investments | (120) | - | (120) | - |
| Investment in 90 day Short Term Deposits | (2,235) | - | - | - |
| Purchase of Assets Leased to Others | (10,306) | (5,529) | (10,306) | (5,529) |
| Purchase of Property, Equipment, Plant & Vehicles | (1,479) | (3,904) | (1,479) | (3,904) |
| Net Cash Flows from Investing Activities | (95,021) | (44,103) | (67,590) | (38,430) |
| **Cash Flows from Financing Activities** | | | | |
| *Cash was provided from:* | | | | |
| Issue of Commercial Paper | 328,730 | 233,550 | - | - |
| Issue of Secured Stock | 169,685 | 83,189 | 169,685 | 83,189 |
| Issue of Subordinated Notes | 4,320 | 2,484 | 4,320 | 2,484 |
| *Cash was applied to:* | | | | |
| Dividends Paid to Shareholders | (786) | (582) | (786) | (582) |
| Repayment of Commercial Paper | (299,417) | (227,820) | - | - |
| Repayment of Secured Stock | (105,439) | (48,420) | (105,439) | (48,420) |
| Repayment of Subordinated Notes | (582) | (3,616) | (582) | (3,616) |
| Net Cash Flows from Financing Activities | 96,511 | 38,785 | 67,198 | 33,055 |
| Net Increase/(Decrease) in Cash | 7,848 | (659) | 6,017 | 399 |

*The notes on pages 15 to 31 form part of these financial statements.*

STATEMENT OF CASH FLOWS *continued*

*for the year ended 31 March 2003*

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003<br>$'000 | 2002<br>$'000 | 2003<br>$'000 | 2002<br>$'000 |
| Cash at Beginning of the Year: | | | | |
| Bank | 2,856 | 3,593 | 1,339 | 940 |
| Short Term Deposits | 1,463 | 1,385 | - | - |
| | 4,319 | 4,978 | 1,339 | 940 |
| Cash at End of the Year: | | | | |
| Bank | 7,924 | 2,856 | 3,113 | 1,339 |
| Short Term Deposits | 4,243 | 1,463 | 4,243 | - |
| | 12,167 | 4,319 | 7,356 | 1,339 |
| Net Increase/(Decrease) in Cash | 7,848 | (659) | 6,017 | 399 |
| **Reconciliation of Net Surplus after Taxation to Net Cash Flows from Operating Activities** | | | | |
| Net Surplus after Taxation | 1,053 | 642 | 1,053 | 642 |
| Non-Cash Items: | | | | |
| Amortisation of Intangibles | 360 | 271 | 360 | 271 |
| Debts Written Off | 1,142 | 1,599 | 1,142 | 1,599 |
| Movement in Provision for Doubtful Debts | (100) | 474 | (43) | 301 |
| Movement in Provision for Recourse | - | - | (56) | 86 |
| Depreciation | 3,440 | 2,431 | 3,440 | 2,431 |
| (Profit)/Loss on Sale of Property, Equipment, Plant & Vehicles | (55) | (238) | (55) | (238) |
| Movement in Future Taxation Benefit | 515 | (824) | 515 | (824) |
| Movements in Other Working Capital Items: | | | | |
| Inventories | (216) | (267) | (216) | (267) |
| Accounts Receivables and Prepayments | (391) | (420) | (391) | (343) |
| Accounts Payable and Provisions | 1,189 | 474 | 1,239 | 1,599 |
| Taxation Payable/Refund Due | (579) | 517 | (579) | 517 |
| | 5,305 | 4,017 | 5,356 | 5,132 |
| Net Cash Flows from Operating Activities | 6,358 | 4,659 | 6,409 | 5,774 |

*The notes on pages 15 to 31 form part of these financial statements.*

## Notes to the Financial Statements

### Note 1 STATEMENT OF ACCOUNTING POLICIES

A. Reporting Entities and Statutory Base

The reporting entities are Speirs Group Limited (the "Parent Company") and the Parent Company and Speirs Securities Limited (the "Group"). These financial statements are presented in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

B. Measurement Base

The general accounting policies recognised as appropriate for the measurement and reporting of financial performance, cash flows and the financial position have been followed in the preparation of these financial statements. The historical cost method, as modified by the revaluation of certain assets, has been followed.

These financial statements have been prepared so that all components are stated exclusive of Goods and Services Tax.

C. Particular Accounting Policies

The following particular accounting policies, which significantly affect the measurement of financial performance and of financial position, have been applied:

(i) Basis of Consolidation

The consolidated Group financial statements are prepared from the financial statements of Companies that comprise the Group. They are Speirs Group Limited and Speirs Securities Limited.

Speirs Group Limited treats Speirs Securities Limited as an in-substance subsidiary because, although the Parent Company does not own any shares in Speirs Securities Limited, the two companies have entered into a securitisation arrangement which effectively attributes significant risks and rewards of Speirs Securities Limited to the Parent Company.

All significant transactions between Group companies are eliminated on consolidation.

(ii) Finance Receivables

Finance Receivables, comprising finance leases, hire purchase contracts and secured fixed term advances, are included in the financial statements at the amount of total instalments due less unearned income and provision for doubtful debts.

Finance Receivables include "impaired assets", comprising:

"non-accrual loans" being loans where we do not expect to be able to collect all the amounts owing in terms of the contract;

"restructured loans" being loans on which the original contracted terms have been concessionally modified due to financial difficulties of borrowers, and on which interest continues to be accrued at a rate which is equal to or greater than the Company's average cost of funds at the date of restructuring;

"assets acquired through security enforcement" being assets acquired in full or partial satisfaction of outstanding loans.

"Past due assets" are Finance Receivables which have not been operated by the counterparty within the key terms of the agreement for at least 90 days but which are not impaired assets.

With the exception of non-accrual loans for which no further income is recognised, income in respect of Finance Receivables is recognised either on the yield to maturity method, or on the basis of daily balances outstanding at agreed interest rates.

Credit facility fees are recognised as income upon entering into Finance Receivables transactions.

(iii) Bad Debts and Doubtful Debts Provisioning

Bad Debts are identified on a counterparty by counterparty basis, and where there is reasonable doubt as to their collectability, they are written down, by way of a specific write off, to their expected net collectable amounts with the amount written off recognised as an expense in the Statement of Financial Performance.

In addition, a non-specific provision is maintained for doubtful debts which are inherent in the portfolio of Finance Receivables, but which have not been specifically identified and provided for. The amount of the non-specific provision is determined as a percentage of total Finance Receivables.

Any movements in the non-specific provision are recognised in the Statement of Financial Performance.

(iv) Assets Leased to Others

Assets Leased to Others by way of "Operating Leases" are valued at cost less accumulated depreciation at straight line rates estimated to reduce the value of the assets to their resale values at the conclusion of the operating lease terms. Rental in respect of Assets Leased to Others by way of "Operating Leases" is recognised as income as rental instalments fall due for payment.

(v) Investment Properties

Real estate leased to others is accounted for as Investment Properties and is valued at the net current valuation by independent registered valuers on an annual basis, and no depreciation is provided for. Real estate revaluation gains and losses are recognised through the Statement of Movements in Equity.

(vi) Short Term Deposits and Cash at Bank Pledged to Others

Short Term Deposits, including cash deposited at Registered Banks but pledged to others, are recorded at cost. Interest is accounted for on an accrual basis.

(vii) Intangible Assets

Costs related to the establishment of the Securitisation of the Finance Receivables are written off over a period of eight years. Costs related to securing rights to utilise the Scalime process are written off over a period of five years. Costs relating to the establishment of a residential mortgage business are written off over a period of three years.

(viii) Property, Equipment, Plant, Vehicles & Computer Software

Land and buildings which are not classified as investment properties are accounted for at market values established by independent registered valuers every five years. The last valuations took place on 31 March 1999. Depreciation of buildings is recognised as an expense in the Statement of Financial Performance at rates of 2.50% to 2.96% based on the 31 March 1999 valuation.

Equipment, Plant, Vehicles and Computer Software are valued at cost less accumulated depreciation, depreciation being provided on a straight line basis at the following rates:

| | |
|---|---|
| Vehicles | 20% |
| Computer Equipment | 12.5-25% |
| Other Plant, Equipment and Computer Software | 10-25% |

The cost of developing certain computer software for use by the Parent Company internally is capitalised at cost, and once the software is in use, is amortised over a period of eight years.

(ix) Cash and Other Current Assets

Accounts Receivable are valued at estimated net realisable value after providing against debts where collection is doubtful.

Stocks are valued at the lower of cost and net realisable value.

(x) Borrowings

Borrowings are recognised at the amounts received from lenders, together with accrued interest where appropriate.

Interest expense is recognised on an accrual basis.

Interest rate swaps are entered into to manage interest rate exposure on Commercial Paper, with resulting gains and losses accounted for in the Statement of Financial Performance as they arise.

(xi) Taxation

The taxation expense recognised in the Statement of Financial Performance is the estimated liability in respect of the Net Surplus after allowance for permanent differences. This is the comprehensive basis for the calculation of Deferred Taxation.

The Group and Parent Company follow the liability method of accounting for Deferred Taxation. Net Future Taxation Benefits, after deducting deferred tax liabilities, attributable to timing differences, are recognised in the financial statements if there is virtual certainty they will be recouped.

(xii) Financial Instruments

Recognised

Financial instruments carried on the Statement of Financial Position include cash and bank balances, finance receivables, trade creditors and borrowings. The particular recognition methods adopted are disclosed in the individual accounting policy statements associated with each item.

Financial instruments, including derivatives, that are designated as hedges of specific items are accounted for on the same basis as the underlying hedged items.

Unrecognised

The net differential paid or received on interest swaps is recognised as a component of interest expense over the period of the agreement.

(xiii) Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

a. Cash means coins and notes, demand deposits and other highly liquid investments in which the Group and Parent Company have invested as part of its day-to-day cash management. Cash includes liabilities which are the negative form of the above, such as any Bank Overdraft. Cash does not include Accounts Receivable or Payable, any Borrowing subject to a term facility or Cash at Bank Pledged to Others.

b. Investing activities are those activities relating to the acquisition, holding and disposal of Property, Equipment, Plant & Vehicles, Finance Receivables and other investments. Investments can include securities not falling within the definition of Cash.

c. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group and Parent Company. This includes both Equity and Debt not falling within the definition of Cash. Dividends paid in relation to the capital classified as Equity are included in financing activities.

d. Operating activities include all transactions and other events that are not investing or financing activities. Interest and Dividends received and Interest Paid are included in operating activities.

(xiv) Securitisation Arrangements

Neither surpluses nor deficits are recognised upon the assignment of Finance Receivables between the Parent Company and Speirs Securities Limited.

Administration fees earned from the Securitisation arrangement are recognised in the Parent Company's Statement of Financial Performance over the term of

the contract and are limited to the surpluses earned by Speirs Securities Limited.

D. Changes in Accounting Policies

There have been no changes in the accounting policies during the year.

**Note 2 SECURITISATION ARRANGEMENT**

The Parent Company is party to a securitisation arrangement with Speirs Securities Limited, and other parties including a Registered Bank. Under the terms of this arrangement, Speirs Securities Limited purchases eligible finance receivables, on a partial recourse basis, from Speirs Group Limited. The purchase of these receivables by Speirs Securities Limited is funded by the issue of ninety-day commercial paper in the wholesale money market. The interest rate risk within Speirs Securities Limited arising from the funding of fixed rate receivables with ninety-day commercial paper is hedged through the use of interest rate swaps.

This arrangement has the effect of lowering the cost of funding for the Group. All profits made by Speirs Securities Limited are remitted to the Parent Company by way of administration fees for its continued management of the transferred receivables and the general affairs of Speirs Securities Limited.

The principle components of the arrangement are:

(i) Speirs Securities Limited is constituted for the one special purpose of purchasing the Cash Flow component of Finance Receivables agreements ("Eligible Receivables") (in the form of tranches of Eligible Receivables) from the Parent Company from time to time.

(ii) The Parent Company is contracted to manage and administer the Eligible Receivables and the affairs generally of Speirs Securities Limited for various fees which together are equivalent to the operating surplus of Speirs Securities Limited. Since it is not possible to determine an alternative fair value for these administration contracts with sufficient certainty, no fair value has been placed upon them. The fees earned in the year ended 31 March 2003 amounted to $2,096,328 (2002 $1,512,549).

(iii) The Shareholders of Speirs Securities Limited are unrelated to the Parent Company.

(iv) Speirs Securities Limited primarily funds the purchase of each tranche of Eligible Receivables by issuing ninety-day Commercial Paper to the wholesale money market.

(v) To be "Eligible" the Eligible Receivables must arise from Finance Receivables agreements that, amongst other things:

a. are either Finance Leases, Security Agreements or Hire Purchase Agreements;

b. provide funding to a client counter-party that is secured by a charge over a registered motor vehicle used by and in the possession of the client counter-party;

c. be for a maximum term of forty-eight months; and

d. require repayment by a regular and even (usually monthly) cash flow payable from the client counter-party to the Parent Company over the life of the agreement. The final payment may include a Residual Value or Balloon payment defined in (xii) below.

(vi) Interest rate swap agreements are entered into with the Registered Bank concurrently with the issuing of the Commercial Paper required to fund each individual tranche of Eligible Receivables. These are supported by standby facilities provided by the Registered Bank (see (vii) below) which guarantees funding should it not be possible to roll over ninety-day bills on their maturity. Under these agreements, and subject to subordinated debt arrangements referred to in (ix) below:

a. the quantum and tenor of the money borrowed from the wholesale money market is exactly matched in both value and timing to the aggregate cash flows due to the Parent Company from the client counter-parties under the individual Eligible Receivables agreements. In this manner, the liquidity risk associated with funding by way of ninety - day Commercial Paper is eliminated; and

b. the interest rate cost of borrowing is fixed for the effective life of each tranche and, therefore, is fixed for each Eligible Receivable agreement that constitutes the tranche. At balance date the Group had entered into interest rate swaps with a face value of $90,446,720. The fair value of these swaps at balance date is $89,902,092

(vii) The arrangement provides facilities for Speirs Securities Limited to borrow an agreed limit, currently set at $100,000,000, on the wholesale money market. The Registered Bank provides standby facilities to meet any shortfalls, up to a maximum of the $100,000,000 limit, from the wholesale money market should they ever arise.

(viii) During the year ended 31 March 2003, the Parent Company sold $93,639,146 (2002 $61,499,850) of Eligible Receivables to Speirs Securities Limited, and derecognised these Finance Receivables in the financial statements of the Parent Company. No surplus or deficit was recognised as a result of these sales. At 31 March 2003 the net value of these Eligible Receivables sold to and owned by Speirs Securities Limited was $95,690,172 (2002 $72,602,676).

(ix) The Parent Company is required to lend funds on a continuing basis to Speirs Securities Limited by way of subordinated debt. The minimum quantum of that funding is calculated monthly on an agreed formula that discounts the aggregate future cash flows of the Speirs Securities Limited portfolio of Eligible Receivables by the aggregate of the weighted fixed swap interest borrowing rate that applies to them plus three percent. Different weightings are then applied according to the nature of the Eligible Receivables agreements and the underlying motor vehicles supporting them. The quantum of subordinated debt required varies marginally from month to month, but normally ranges between 13% and 14% of the accounting value of the Eligible Receivables at any time. The amount of the subordinated debt at 31 March 2003 was $10,815,934 (2002 $16,175,421) (see Note 9).

(x) The loans made by the Parent Company to Speirs Securities Limited in this manner are subordinated to all other borrowings of Speirs Securities Limited. The rate of interest charged by the Parent Company to Speirs Securities Limited is governed by market rates and assessed risks and is set by the Parent Company and agreed by Speirs Securities Limited from time to time.

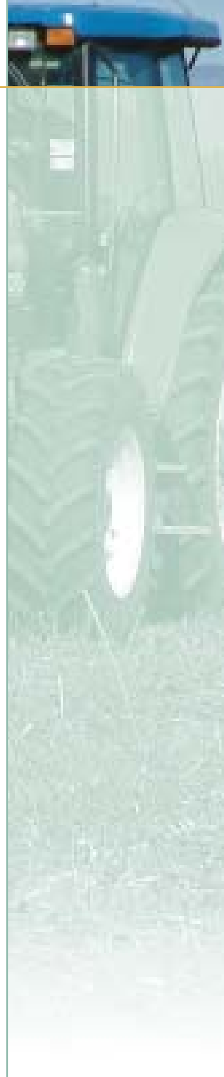
(xi) The Securitisation arrangement permits Speirs Securities Limited to apply the subordinated debt to fund losses it might incur on any of its purchased Eligible Receivables agreements. Other than for the Contingent Liability mentioned below with regard to residual values, balloon payments and interest rate swaps, the Parent Company's exposure for any bad and doubtful debts incurred by Speirs Securities Limited is limited to the subordinated debt invested by the Parent Company.

(xii) Many Eligible Receivables agreements sold to Speirs Securities Limited under the Securitisation arrangements contain contractual undertakings by the client counter-party to make a final residual value or balloon payment on the termination of the Eligible Receivables agreement. This final payment amount (if any) is set at the time of the origination of the Eligible Receivables agreement and will not exceed an amount established by the Parent Company and agreed by the Registered Bank as being a conservative estimate of the value of the underlying supporting registered motor vehicle asset that could be obtained by selling the motor vehicle asset into the open market place at the date the residual value or balloon payment is due.

(xiii) A guarantor guarantees to Speirs Securities Limited the payment of residual values and balloon payments defined in (xii) above. In turn, the Parent Company indemnifies the guarantor in respect of the guarantor's contingent liability under this guarantee, which at 31 March 2003 amounted to $20,370,730 (2002 $16,637,946).

(xiv) In the event of the Parent Company being called upon to meet the indemnity referred to in (xiii) above, the Parent Company may eliminate or mitigate this cost by realising the underlying security (the registered charge over a nominated motor vehicle) and selling the motor vehicle into the market place.

(xv) The Parent Company is required to place amounts, equal to a percentage of residual values guaranteed, together with amounts related to interest rate swap guarantees, on deposit with a nominated Registered Bank as collateral. At 31 March 2003 the amount of Registered Bank deposits pledged in this manner was $3,805,100 (2002 $3,595,504).



## Note 3 SURPLUS BEFORE TAXATION

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| **Operating Revenue** | | | | |
| Interest Earned on: | | | | |
| Finance Receivables | 23,645 | 19,111 | 13,846 | 11,088 |
| Short Term Deposits | 696 | 262 | 469 | 63 |
| Subordinated Debt – Speirs Securities Limited | - | - | 1,888 | 2,486 |
| Credit Facility Fees | 2,428 | 1,089 | 2,428 | 1,089 |
| Fees Earned as Administrator - Speirs Securities Limited | - | - | 2,096 | 1,512 |
| Operating Lease Rentals | 3,122 | 2,273 | 3,122 | 2,273 |
| Profit on Sale of Assets Leased to Others | 48 | 243 | 48 | 243 |
| Sales by Trading Divisions | 12,041 | 10,139 | 12,041 | 10,139 |
| Dividends Received | 67 | 102 | 67 | 102 |
| Bad Debts Recovered | 78 | 79 | 78 | 79 |
| Other Income | 218 | 23 | 218 | 23 |
| Total Operating Revenue | 42,343 | 33,321 | 36,301 | 29,097 |
| **Expenses** | | | | |
| Amortisation of Intangible Assets | 360 | 271 | 360 | 271 |
| Audit Fees: | | | | |
| Statutory Audit | 78 | 65 | 78 | 65 |
| Prior Year Under-accrual | 25 | - | 25 | - |
| Consultancy | 14 | 9 | 14 | 9 |
| Bad Debts Written Off | 1,142 | 1,599 | 1,142 | 1,599 |
| Bad Debt Provisioning: | | | | |
| General | 30 | 363 | 87 | 276 |
| Specific | (130) | 111 | (130) | 111 |
| Depreciation: | | | | |
| Buildings | 31 | 26 | 31 | 26 |
| Vehicles | 157 | 130 | 157 | 130 |
| Computer Equipment | 192 | 158 | 192 | 158 |
| Other Plant, Equipment and Computer Software | 948 | 415 | 948 | 415 |
| Assets Leased to Others | 2,112 | 1,702 | 2,112 | 1,702 |
| Directors' Fees | 140 | 119 | 116 | 119 |
| Interest Paid: | | | | |
| Bank Overdraft | 162 | 65 | 162 | 65 |
| Commercial Paper | 5,727 | 3,948 | - | - |
| Secured Stock | 10,798 | 7,552 | 10,798 | 7,552 |
| Subordinated Notes | 1,098 | 1,069 | 1,098 | 1,069 |
| Convertible Notes | - | 152 | - | 152 |
| (Profit)/Loss on Sale of Property, Equipment, Plant & Vehicles | (7) | 5 | (7) | 5 |
| Rent Paid | 190 | 163 | 190 | 163 |
| Other Trading and Operating Expenses | 17,708 | 14,452 | 17,360 | 14,263 |
| Total Expenses | 40,775 | 32,374 | 34,733 | 28,150 |
| Surplus before Taxation | 1,568 | 947 | 1,568 | 947 |

Interest Revenue from impaired assets has not been separately disclosed as it is not significant.

## Note 4 TAXATION (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Surplus before Taxation | 1,568 | 947 |
| Taxation on the Surplus for the Year at 33 cents in the Dollar | 517 | 313 |
| Adjustments for the taxation effect of: | | |
| Non-Deductible Items | 11 | 14 |
| Dividend Imputation Credits | 7 | 11 |
| Benefit of Imputation Credits Received | (20) | (33) |
| Taxation Expense | 515 | 305 |
| Taxation Expense is Represented by: | | |
| Taxation Payable in Respect of the Current Year | (20) | 1,129 |
| Net Movement in Future Taxation Benefit | 535 | (824) |
| Taxation Expense | 515 | 305 |
| **Future Taxation Benefit** | | |
| Balance at Beginning of the Year | 2,405 | 1,581 |
| Net Movement in Respect of Current Year | (535) | 824 |
| Balance at End of the Year | 1,870 | 2,405 |
| Future Taxation Benefit Comprises: | | |
| Timing Differences that Provide Future Taxation Benefits | 3,376 | 7,288 |
| Recognised Tax Losses | 2,291 | - |
| Net Future Taxation Timing Charges | 5,667 | 7,288 |
| Future Taxation Benefit at 33 cents in the Dollar | 1,870 | 2,405 |
| **Imputation Credit Account** | | |
| Balance at Beginning of the Year | 3,259 | 2,900 |
| Income Tax Paid | 579 | 612 |
| Imputation Credits attached to Dividends Received | 20 | 33 |
| Imputation Credits Allocated to Dividends Paid to Shareholders | (387) | (286) |
| Balance at End of the Year | 3,471 | 3,259 |

The carry forward of imputation credits and tax losses available to the Parent Company is subject to the Parent Company meeting Shareholder Continuity requirements of the Income Tax Act 1994.

## Note 5 CASH AND OTHER CURRENT ASSETS

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Cash on Hand and at Bank | 7,924 | 2,856 | 3,113 | 1,339 |
| GST Refund Due | 585 | 818 | 585 | 818 |
| Prepayments | 160 | 141 | 160 | 141 |
| Trade Receivables | 1,843 | 1,238 | 1,843 | 1,238 |
| Other Receivables | 20 | - | 20 | - |
| Owing from Speirs Securities Limited | - | - | 2,105 | - |
| Stocks | 863 | 647 | 863 | 647 |
| Total Cash and Other Current Assets | 11,395 | 5,700 | 8,689 | 4,183 |

## Note 6 FINANCE RECEIVABLES

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Gross Receivables - Finance Lease, Hire Purchase and Other Finance Contracts | 297,168 | 201,629 | 187,638 | 118,120 |
| Provision for Unearned Income | (37,401) | (25,013) | (23,561) | (14,108) |
| | 259,767 | 176,616 | 164,077 | 104,012 |
| **Provision for Doubtful Debts** | (1,776) | (1,876) | (1,106) | (1,149) |
| Total Finance Receivables | 257,991 | 174,740 | 162,971 | 102,863 |

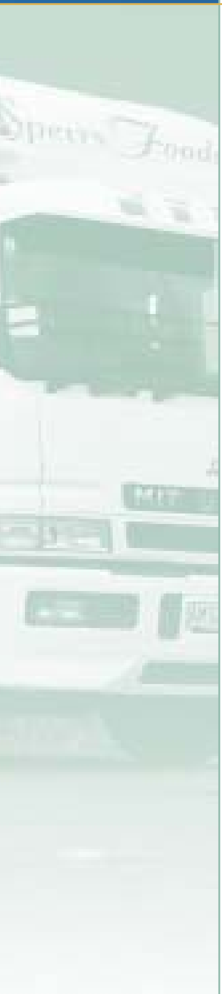
The amount owing by Directors is $Nil (2002 $8,459). This represented a Finance Lease.

| | | | | |
|---|---|---|---|---|
| **General Provision for Doubtful Debts** | | | | |
| Balance at Beginning of the Year | 1,746 | 1,383 | 1,019 | 743 |
| Net Movement Recognised in the Statement of Financial Performance | 30 | 363 | 87 | 276 |
| Balance at End of the Year | 1,776 | 1,746 | 1,106 | 1,019 |

The Group and Parent Company Provision for Doubtful Debts is a general provision totalling (approximately) 0.70% (2002 1.00%) of the aggregate carrying value of all Finance Receivables.

| | | | | |
|---|---|---|---|---|
| **Specific Provision for Doubtful Debts** | | | | |
| Balance at Beginning of the Year | 130 | 19 | 130 | 19 |
| Net Movement Recognised in the Statement of Financial Performance | (130) | 111 | (130) | 111 |
| Balance at End of the Year | - | 130 | - | 130 |
| | | | | |
| **Impaired Assets** | | | | |
| **Non-Accrual Loans** | | | | |
| Balance at Beginning of the Year | 2,110 | 990 | 2,110 | 990 |
| Additions | 6,481 | 6,172 | 6,481 | 6,172 |
| Deletions | (6,033) | (3,526) | (6,033) | (3,526) |
| Bad Debts Written Off | (1,102) | (1,526) | (1,102) | (1,526) |
| Balance at End of the Year | 1,456 | 2,110 | 1,456 | 2,110 |
| **Restructured Loans** | | | | |
| Balance at Beginning of the Year | 165 | 141 | 165 | 141 |
| Additions | 314 | 350 | 314 | 350 |
| Deletions | (99) | (253) | (99) | (253) |
| Bad Debts Written Off | (40) | (73) | (40) | (73) |
| Balance at End of the Year | 340 | 165 | 340 | 165 |
| **Past Due Assets** | | | | |
| Balance at Beginning of the Year | 1,259 | 855 | 1,259 | 855 |
| Additions During the Year | 7,983 | 5,778 | 7,983 | 5,778 |
| Deletions During the Year | (6,609) | (5,374) | (6,609) | (5,374) |
| Balance at End of the Year | 2,633 | 1,259 | 2,633 | 1,259 |

No Finance Receivables are, or have been, assets acquired through security enforcement.



## Note 7 ASSETS LEASED TO OTHERS (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Operating Leased Vehicles: | | |
| Cost | 12,781 | 7,780 |
| Accumulated Depreciation | (2,244) | (1,701) |
| Total Operating Leased Vehicles | 10,537 | 6,079 |

## Note 8 INVESTMENT PROPERTIES (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Land and Buildings at Valuation | 1,244 | 1,210 |

Land and Buildings leased to others by way of Operating Leases were revalued to current market valuation in accordance with a valuation report of Mr A.W. Walshaw, S.N.Z.P.I., A.N.Z.I.V., an independent Registered Valuer, of Palmerston North. The date of the valuation report was 12 March 2003.

## Note 9 SUBORDINATED DEBT - SECURITISED ASSETS (Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Gross Subordinated Debt | 10,816 | 16,175 |
| Provision for Recourse on Debt Sold to Speirs Securities Limited | (670) | (726) |
| Net Subordinated Debt | 10,146 | 15,449 |

Note 2 describes the arrangement that allows Speirs Securities Limited to apply subordinated debt against any losses it incurs on its purchased Finance Receivables. The Provision for Recourse deducted above represents 0.70% (2002 1.00%) of the value at balance date of the Finance Receivables sold to Speirs Securities Limited, being the same percentage provided as a general provision for doubtful debts in respect of Finance Receivables of the Parent Company.

## Note 10 PROPERTY, EQUIPMENT, PLANT & VEHICLES (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Freehold Land – Valuation | 78 | 68 |
| Freehold Buildings – Valuation | 1,063 | 944 |
| Total Property | 1,141 | 1,012 |
| Equipment, Plant & Vehicles: | | |
| Cost | 11,753 | 10,075 |
| Accumulated Depreciation | (3,498) | (2,221) |
| Total Equipment, Plant & Vehicles | 8,255 | 7,854 |
| Software Under Development | 21 | 415 |
| Total Property, Equipment, Plant & Vehicles, Software Under Development | 9,417 | 9,281 |

All freehold land and buildings were revalued to current market valuation in accordance with a valuation report of Mr P.J. Goldfinch, F.N.Z.I.V., an independent Registered Valuer, of Palmerston North. The date of the valuation report was 31 March 1999. Additions at cost since that date amount to $741,014. The Parent Company holds an indicative valuation dated 31 March 2001 of $820,700.

The Freehold Land and Buildings are used for food processing purposes. The Equipment, Plant & Vehicles are used for food processing purposes and by our administration and finance offices and staff.

## Note 11 INTANGIBLE ASSETS (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Balance at Beginning of the Year | 1,133 | 1,028 |
| Capitalised during the Year | 185 | 376 |
| Amortised during the Year | (360) | (271) |
| Balance at End of the Year | 958 | 1,133 |

Intangible Assets comprise costs relating to the establishment of the "Securitisation" arrangement for Finance Receivables, costs relating to the establishment of a residential mortgage business and costs relating to securing rights to utilise the "Scalime process" less amortisation to date.

## Note 12 LIABILITIES

The Parent Company's Bank Overdraft facility, unused at 31 March 2003 and 2002, is secured by way of a floating charge over all of the Parent Company's assets and undertakings. This floating charge takes priority over all other borrowings of the Parent Company, but is limited to the amount borrowed from Registered Banks or $17,450,000 (31 March 2002: $9,272,000), whichever is the lesser.

The Parent Company's Secured Stock is secured under the Terms of the Composite Trust Deed dated 16 June 1986 between the Parent Company and Perpetual Trust Limited. This floating charge takes priority over all other borrowings of the Parent Company, other than for borrowings from Registered Banks referred to above.

The Parent Company's Subordinated Notes rank equally with Convertible Notes and behind all other liabilities of the Parent Company.

The Group's Commercial Paper is secured by way of a Security Trust Deed dated 6 March 1998 between the Parent Company, the in-substance subsidiary (Speirs Securities Limited), Perpetual Trust Limited and certain Registered Banks. This represents a fixed and floating charge over all the assets of in-substance subsidiary Speirs Securities Limited.

## Note 13 CONVERTIBLE NOTES (Group and Parent Company)

During October 1996 4,000,000 $1.00 Convertible Notes earning 11.50% were allotted to investors. These converted to Ordinary Shares on a two for three basis on 31 July 2001 when 2,666,890 Ordinary Shares were allotted to those Convertible Noteholders. On conversion the new shares ranked equally with all existing Ordinary Shares in the Parent Company, other than that they ranked for dividends payable only out of the operating surplus of the Parent Company subsequent to 31 July 2001.

Until conversion all Convertible Notes on issue were Subordinated Debt as defined in the Composite Trust Deed dated 16 June 1986, and ranked equally with all other Subordinated Notes/Convertible Notes on issue, and ranked behind all other liabilities of the Parent Company.

## Note 14 EQUITY (Group and Parent Company)

| | 2003 $'000 | 2002 $'000 |
|---|---|---|
| Fully Paid Up Ordinary Share Capital | 10,068 | 10,068 |
| Reserves | 242 | 208 |
| Retained Earnings | 751 | 484 |
| Total Equity | 11,061 | 10,760 |
| **Fully Paid Up Ordinary Share Capital** | | |
| Balance at Beginning of the Year | 10,068 | 6,068 |
| No Shares Issued for Cash in exercise of options (2002: No Shares) | - | - |
| No Shares Issued on Conversion from Convertible Notes (2002: 2,666,890) | - | 4,000 |
| Balance at End of the Year – 8,734,576 Ordinary Shares (2002 8,734,576 Ordinary Shares) | 10,068 | 10,068 |
| **Reserves** | | |
| ASSET REVALUATION RESERVE | | |
| Balance at Beginning of the Year | 72 | 72 |
| Revaluation | - | - |
| Balance at End of the Year | 72 | 72 |
| INVESTMENT PROPERTY REVALUATION RESERVE | | |
| Balance at Beginning of the Year | 136 | 97 |
| Revaluation | 34 | 39 |
| Balance at End of the Year | 170 | 136 |
| Total Reserves | 242 | 208 |
| **Retained Earnings** | | |
| Balance at Beginning of the Year | 484 | 424 |
| Net Surplus after Taxation | 1,053 | 642 |
| Dividends Paid in Cash | (786) | (582) |
| Balance at End of the Year | 751 | 484 |

All issued Ordinary Shares are fully paid and rank equally in all matters.

Directors and staff hold a total of 175,000 Options to subscribe for Ordinary Shares in the Parent Company at a cost of $1 for each share. Of these, 75,000 Options may be exercised in whole or in part on or before 30 September 2003 and 100,000 Options on or before 30 September 2006.

Messrs D P Speirs and R N Speirs each hold "Founders Options" to subscribe for 1,000,000 Ordinary Shares in the Parent Company at a cost of $1 for each share. These options may be exercised in whole or in part on or before 30 September 2006.

## Note 15 FINANCIAL INSTRUMENTS

### Credit Risks

Financial Assets and off balance sheet liabilities which subject the Group and Parent Company to credit risks consist of:

| | Group | | Parent Company | |
|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| Cash at Bank | 7,924 | 2,856 | 3,113 | 1,339 |
| Short Term Deposits | 6,478 | 1,463 | 4,243 | - |
| Trade Receivables | 1,843 | 1,238 | 1,843 | 1,238 |
| Owing from Speirs Securities Limited | - | - | 2,105 | - |
| Finance Receivables | 257,991 | 174,740 | 162,971 | 102,863 |
| Cash at Bank Pledged to Others | 3,805 | 3,596 | 3,805 | 3,596 |
| Subordinated Debt – Securitised Assets | - | - | 10,146 | 15,449 |
| 'Off Balance Sheet' Residual Values/Balloon Payments | - | - | 20,371 | 16,638 |

The Parent Company's credit risk exposure in respect of 'Off Balance Sheet' Residual Values/Balloon Payments guarantees should be reducible to the extent of Subordinated Debt not otherwise applied and certain of the Cash at Bank Pledged to Others.

All of these Financial Assets are recognised in the Statement of Financial Position with the exception, in the case of the Parent Company, of the 'Off Balance Sheet' Residual Values/Balloon Payments.

The Group and Parent Company manage credit risks of Finance Receivables primarily by restricting advances to:

a) Finance Leases, Hire Purchase Agreements and Security Agreements over motor cars, commercial vehicles and other fixed assets owned or administered by the Parent Company and financed for a maximum of five years to quality customers throughout New Zealand, with their interests in the assets registered with the Personal Property Securities Register;

b) Fixed Term Advances secured by debenture or mortgage as appropriate.

Credit risks in respect of Bank balances and Short Term Deposits are managed by limiting amounts invested in any particular institution or by depositing amounts with Registered Banks within New Zealand.

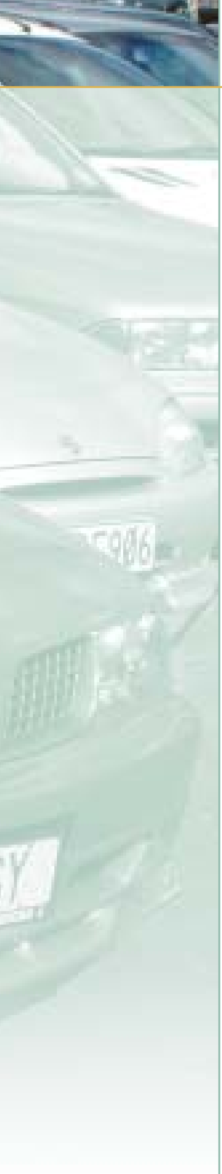
### Concentration of Credit Risks

Concentration of credit risks arises where monetary assets are invested with a particular individual customer or in a particular industrial or geographic sector. The Group and Parent Company manage concentration of credit risk by placing restrictions on the maximum amounts which may be advanced to any one individual customer or deposited with a Registered Bank.

At 31 March 2003 the Group was exposed to nine and the Parent Company was exposed to eight clients whose indebtedness exceeded ten per cent of the Group's and Parent Company's Equity. This exposure includes two Registered Banks.

| | Group | | Parent Company | |
|---|---|---|---|---|
| Percentage of Equity | 2003 | 2002 | 2003 | 2002 |
| 10% - 20% | 6 | 2 | 5 | 2 |
| 20% - 30% | 1 | - | - | - |
| 30% - 40% | 1 | - | 1 | - |
| 40% - 50% | - | - | - | 1 |
| 50% - 60% | - | 1 | - | - |
| 60% - 70% | - | - | 1 | - |
| 120% - 130% | 1 | - | 1 | - |
| 140% - 150% | - | - | - | 1 |
| | 9 | 3 | 8 | 4 |

Other than as disclosed above, there are no concentrations of exposure to any particular industry. The Group is not exposed to any geographic concentration of credit risks. All credit risks are in New Zealand.



## Note 15 FINANCIAL INSTRUMENTS *continued*

### Liquidity Risk

Liquidity risk arises where there is a mismatch in the timing of repayments of monetary liabilities and realisation of monetary assets. The Group and Parent Company mitigate liquidity risk through the securitisation programme which provides funding on Commercial Paper and standby facilities from Registered Banks as referred to in Note 2. The Parent Company also manages liquidity risk by matching, as best as it can, maturities of monetary liabilities and monetary assets which have not been securitised.

At 31 March 2003 the Parent Company held unused credit facilities from Registered Banks aggregating $14,000,000 (2002 $8,000,000). These facilities are available to the Parent Company and to the Group on a two-year "rolling" evergreen basis.

The maturity profiles are set out on page 27-29.

### Foreign Currency

At 31 March 2003 the Group and Parent Company had no foreign currency exposure. At 31 March 2002 the Group and Parent Company's only exposure in foreign currency is through a forward commitment to sell USD280,000 in October 2002 at 0.6077 USD = 1 NZD. This was held as a hedge against the expected sale of assets at that date for USD280,000.

### Concentration of Funding Risk

The Parent Company manages concentration of funding risk by limiting the amount of borrowings from any individual investor. At 31 March 2003 and 2002 the Parent Company had no significant concentration of funding from any individual investor.

In relation to geographic concentrations of funding risks for the Group and Parent, approximately half of the Group and Parent's secured stock funds are received from investors in the lower half of the North Island.

The Group may have concentration of funding through maturing Commercial Paper. However, this is off-set by standby facilities provided by Registered Banks, which is available to access, if necessary, upon the repayment of Commercial Paper. (See Note 2).

### Fair Value of Financial Instruments

Fair values of financial instruments are materially similar to their carrying values in these financial statements.

### Interest Rate Risk

Interest rate risk arises from lending at fixed interest rates for different terms than the corresponding borrowings.

Interest rate risk of the Parent Company is managed, by matching as far as possible, maturities on funding facilities with maturities on Finance Receivables. The Parent Company has no interest rate hedge contracts.

Interest rate risk in respect of Speirs Securities Limited is managed by entering into interest rate swap contracts in respect of all Commercial Paper borrowings for the term of the appropriately matching Finance Receivables. (See Note 2).

Maturity terms and current weighted average interest rates are set out on pages 27-29.

## Note 15 FINANCIAL INSTRUMENTS *continued*

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| **Group 2003** | | | | | | |
| NET MONETARY ASSETS | | | | | | |
| Cash on Hand and at Bank | 5.00 | 7,924 | 7,924 | - | - | - |
| GST Refund Due | - | 585 | - | 585 | - | - |
| Trade Receivables | - | 1,843 | - | 1,843 | - | - |
| Short Term Deposits | 5.75 | 6,478 | 4,243 | 2,235 | - | - |
| Tax refund due | - | 450 | - | 450 | - | - |
| Finance Receivables | 10.64 | 257,991 | - | 108,494 | 76,642 | 72,855 |
| Cash at Bank Pledged to Others | 5.75 | 3,805 | - | - | - | 3,805 |
| Total Monetary Assets | | 279,076 | 12,167 | 113,607 | 76,642 | 76,660 |

Assets Leased to Others are excluded from this table as they are not technically 'monetary assets'.

| LIABILITIES | | | | | | |
|---|---|---|---|---|---|---|
| Trade Accounts Payable and Other Sundry Liabilities | - | 4,151 | - | 4,151 | - | - |
| Accrued Employee Entitlements | - | 81 | - | 81 | - | - |
| Commercial Paper | 6.59 | 89,734 | - | 36,813 | 28,746 | 24,175 |
| Secured Stock | 7.35 | 185,572 | 17,293 | 93,381 | 64,011 | 10,887 |
| Subordinated Notes | 9.35 | 14,281 | - | 7,561 | 2,435 | 4,285 |
| Total Liabilities | | 293,819 | 17,293 | 141,987 | 95,192 | 39,347 |

The Parent Company has immediate credit facilities available from a Registered Bank amounting to $14,000,000, comprising a bank overdraft of up to $1 million and a Committed Cash Advance Facility of up to $13 million. The Committed Cash Advance Facility allows the company to draw down up to $13 million for a term not exceeding 365 days. This facility is approved by the Registered Bank as being available for a period of two years on an "evergreen" two yearly rolling basis.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Group 2002** | | | | | | |
| NET MONETARY ASSETS | | | | | | |
| Cash on Hand and at Bank | 5.00 | 2,856 | 2,856 | - | - | - |
| GST Refund Due | - | 818 | - | 818 | - | - |
| Tax Refund Due | - | 1,238 | - | 1,238 | - | - |
| Short Term Deposits | 4.85 | 1,463 | - | 1,463 | - | - |
| Finance Receivables | 10.68 | 174,740 | - | 78,133 | 50,665 | 45,942 |
| Cash at Bank Pledged to Others | 5.00 | 3,596 | - | - | - | 3,596 |
| Total Monetary Assets | | 184,711 | 2,856 | 81,652 | 50,665 | 49,538 |

Assets Leased to Others are excluded from this table as they are not 'monetary assets'.

## Note 15 FINANCIAL INSTRUMENTS *continued*

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| **Group 2002** | | | | | | |
| LIABILITIES | | | | | | |
| Trade Accounts Payable and Other Sundry Liabilities | - | 2,964 | - | 2,964 | - | - |
| Accrued Employee Entitlements | - | 79 | - | 79 | - | - |
| Taxation Payable | - | 129 | - | 129 | - | - |
| Commercial Paper | 6.49 | 60,421 | - | 29,763 | 18,827 | 11,831 |
| Secured Stock | 6.91 | 121,326 | 13,465 | 75,700 | 25,665 | 6,496 |
| Subordinated Notes | 9.49 | 10,543 | - | 510 | 7,592 | 2,441 |
| Total Liabilities | | 195,462 | 13,465 | 109,145 | 52,084 | 20,768 |

The Parent Company had immediate credit facilities available from certain Registered Banks amounting to $8,000,000.

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| **Parent Company 2003** | | | | | | |
| NET MONETARY ASSETS | | | | | | |
| Cash on Hand and at Bank | 5.00 | 3,113 | 3,113 | - | - | - |
| Short Term Deposits | 5.75 | 4,243 | 4,243 | - | - | - |
| GST Refund Due | - | 585 | - | 585 | - | - |
| Trade Receivables | - | 1,843 | - | 1,843 | - | - |
| Tax refund due | - | 450 | - | 450 | - | - |
| Owing from Speirs Securities Limited | - | 2,105 | - | 2,105 | - | - |
| Finance Receivables | 10.59 | 162,971 | - | 73,817 | 43,866 | 45,288 |
| Cash at Bank Pledged to Others | 5.75 | 3,805 | - | - | - | 3,805 |
| Subordinated Debt – Securitised Assets | 16.00 | 10,146 | - | 2,727 | 4,029 | 3,390 |
| Total Monetary Assets | | 189,261 | 7,356 | 81,527 | 47,895 | 52,483 |

Assets Leased to Others are excluded from this table as they are not technically 'monetary assets'.

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | |
| Trade Accounts Payable and Other Sundry Liabilities | - | 4,070 | - | 4,070 | - | - |
| Accrued Employee Entitlements | - | 81 | - | 81 | - | - |
| Secured Stock | 7.35 | 185,572 | 17,293 | 93,381 | 64,011 | 10,887 |
| Subordinated Notes | 9.35 | 14,281 | - | 7,561 | 2,435 | 4,285 |
| Total Liabilities | | 204,004 | 17,293 | 105,093 | 66,446 | 15,172 |

The Company has immediate credit facilities available from certain Registered Banks amounting to $14,000,000, comprising a bank overdraft of up to $1 million and a Committed Cash Advance Facility of up to $13 million. The Committed Cash Advance Facility allows the company to draw down up to $13 million for a term not exceeding 365 days. This facility is approved by the Registered Bank as being available for a period of two years on an "evergreen" two yearly rolling basis.

## Note 15 FINANCIAL INSTRUMENTS *continued*

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| **Parent Company 2002** | | | | | | |
| NET MONETARY ASSETS | | | | | | |
| Cash on Hand and at Bank | 5.00 | 1,339 | 1,339 | - | - | - |
| GST Refund Due | - | 818 | - | 818 | - | - |
| Trade Receivables | - | 1,238 | - | 1,238 | - | - |
| Finance Receivables | 10.38 | 102,863 | - | 45,548 | 26,535 | 30,780 |
| Cash at Bank Pledged to Others | 5.00 | 3,596 | - | - | - | 3,596 |
| Subordinated Debt – Securitised Assets | 16.00 | 15,449 | - | 6,816 | 5,302 | 3,331 |
| Total Monetary Assets | | 125,303 | 1,339 | 54,420 | 31,837 | 37,707 |

Assets Leased to Others are excluded from this table as they are not 'monetary assets'.

| | Weighted Interest Rate % | Total $'000 | On Demand $'000 | Up to 12 Months $'000 | Between 12-24 Months $'000 | Between 24-60 Months $'000 |
|---|---|---|---|---|---|---|
| LIABILITIES | | | | | | |
| Trade Accounts Payable and Other Sundry Liabilities | - | 3,977 | - | 3,977 | - | - |
| Accrued Employee Entitlements | - | 79 | - | 79 | - | - |
| Taxation Payable | - | 129 | - | 129 | - | - |
| Secured Stock | 6.91 | 121,326 | 13,465 | 75,700 | 25,665 | 6,496 |
| Subordinated Notes | 9.49 | 10,543 | - | 510 | 7,592 | 2,441 |
| Total Liabilities | | 136,054 | 13,465 | 80,395 | 33,257 | 8,937 |

The Parent Company had immediate credit facilities available from certain Registered Banks amounting to $8,000,000.

## Note 16 SEGMENTS

| | Speirs Foods | | Speirs Finance | | Total | |
|---|---|---|---|---|---|---|
| | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 | 2003 $'000 | 2002 $'000 |
| **Group** | | | | | | |
| Gross Operating Revenue | | | | | | |
| Interest Earned | - | - | 24,341 | 19,373 | 24,341 | 19,373 |
| Operating Lease Rentals | - | - | 3,122 | 2,273 | 3,122 | 2,273 |
| Sales to Customers | 12,041 | 10,139 | - | - | 12,041 | 10,139 |
| Other Income | - | - | 2,839 | 1,536 | 2,839 | 1,536 |
| Total Revenue | 12,041 | 10,139 | 30,302 | 23,182 | 42,343 | 33,321 |
| Segment Result | 634 | 458 | 2,760 | 1,558 | 3,394 | 2,016 |
| Interest on Subordinated Notes | | | | | (1,098) | (1,069) |
| Corporate Costs | | | | | (728) | - |
| Taxation | | | | | (515) | (305) |
| Net Surplus after Taxation | | | | | 1,053 | 642 |
| Segment Assets | 6,163 | 6,081 | 298,717 | 200,141 | 304,880 | 206,222 |
| **Parent Company** | | | | | | |
| Gross Operating Revenue | | | | | | |
| Interest Earned | - | - | 16,203 | 13,637 | 16,203 | 13,637 |
| Operating Lease Rentals | - | - | 3,122 | 2,273 | 3,122 | 2,273 |
| Sales to Customers | 12,041 | 10,139 | - | - | 12,041 | 10,139 |
| Other Income | - | - | 4,935 | 3,048 | 4,935 | 3,048 |
| Total Revenue | 12,041 | 10,139 | 24,260 | 18,958 | 36,301 | 29,097 |
| Segment Result | 634 | 458 | 2,760 | 1,558 | 3,394 | 2,016 |
| Interest on Subordinated Notes | | | | | (1,098) | (1,069) |
| Corporate Costs | | | | | (728) | - |
| Taxation | | | | | (515) | (305) |
| Net Surplus after Taxation | | | | | 1,053 | 642 |
| Segment Assets | 6,163 | 6,081 | 208,902 | 140,733 | 215,065 | 146,814 |

The Group and Parent Company operate predominantly in two industries, wholly within New Zealand.

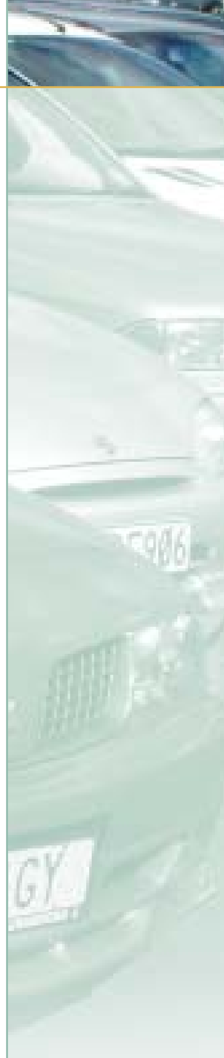
The food industry operations comprise:

- the supply of salad to retailers and caterers.

The finance industry operations comprise:

- the leasing of vehicles.
- advances on vehicles and other assets by way of mortgages, hire purchase and security agreements.

Note - As the Group and Parent Company operate in two distinct industries, the layout and calculations of the segmented accounts for the year ended 31 March 2003 have been altered to reflect the nature of the two industries. Notional Debt/Equity ratios have been allocated to Speirs Foods and Speirs Finance as being appropriate to the industries in which they operate.



### Note 17 RELATED PARTY TRANSACTIONS

The Parent Company holds non-voting Redeemable Preference Shares in MMM Holdings Limited (trading as Anza Motor Company), a Palmerston North based motor vehicle dealer. Speirs Group Limited Directors, D P Speirs, R N Speirs and D J Speirs, and family trusts of which they are trustees, own 155,833 Ordinary Shares in MMM Holdings Limited, amounting to 20% of the ordinary share capital of that Company.

The Parent Company provides funding to MMM Holdings Limited. As at 31 March 2003, funding totalled:

| | $ | Dividend/Interest Rate |
|---|---|---|
| Non-voting, Redeemable Preference Shares | 150,000 | 16% p.a. |
| Floor Plan Advances by way of Secured Debenture | 1,850,000 | 11% p.a. |

In addition, the Parent Company leases real estate to MMM Holdings Limited with a value of $1,244,000 and a rental yield of 10.33% p.a.

The Shares are included in "Investments" and the Leases of Real Estate are included in "Investment Properties".

### Note 18 EVENTS SUBSEQUENT TO BALANCE DATE

Since balance date the Directors have resolved to propose that a final dividend of five cents per share amounting to $436,729 be paid in respect of the year ended 31 March 2003. The dividend will be paid on 30 June 2003.

### Note 19 COMMITMENTS (Group and Parent Company)

As at balance date the Group and Parent Company had commitments outstanding and these are due as follows:

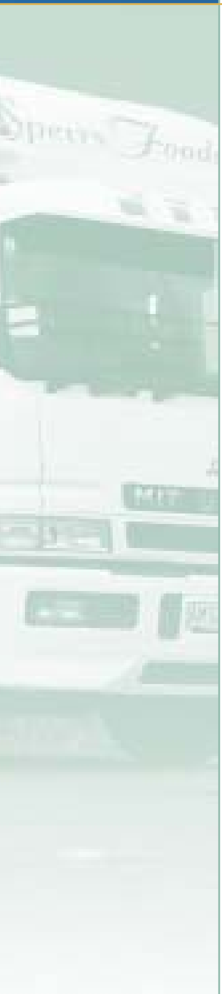
| | Property Rentals $'000 | Capital Expenditure $'000 | 2003 Total $'000 | 2002 Total $'000 |
|---|---|---|---|---|
| Within One Year | 122 | 59 | 181 | 656 |
| Between One and Two Years | 66 | - | 66 | 140 |
| Between Two and Five Years | 84 | - | 84 | 185 |
| Over Five Years | - | - | - | - |
| Total Commitments | 272 | 59 | 331 | 981 |

### Note 20 CONTINGENT LIABILITIES

The Parent Company has a contingent liability to meet any shortfall on residual values/balloon payments attached to financing contracts that have been funded by way of Securitisation amounting to $20,370,730 (2002 $16,637,946).

### Note 21 COMPARATIVE INFORMATION

Some comparative information has been reclassified or restated where it provides more meaningful information and to ensure consistency.



# Auditors' Report

to the shareholders of Speirs Group Limited

**PricewaterhouseCoopers**
113-119 The Terrace
PO Box 243
Wellington
New Zealand
Telephone +64 4 462 7000
Facsimile +64 4 462 7001

We have audited the financial statements on pages 11 to 31. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2003 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 to 17.

## Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company and Group as at 31 March 2003 and their financial performance and cash flows for the year ended on that date.

## Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

## Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacity as auditors.

## Unqualified Opinion

We have obtained all the information and explanations we have required. In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 11 to 31:
  (i) comply with generally accepted accounting practice in New Zealand; and
  (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2003 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 26 May 2003 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants

Wellington

# Directory of Speirs Finance Agencies

**Dave Penney**
Dave Penney & Associates
Speirs Finance Northland Agency
Whangarei

**Andrew Simpson, Martin Donson & Stephanie Bate**
DBS Finance Ltd
Speirs Finance Auckland Agency
Auckland

**Grieg Van Koningsveld**
GVK Finance Ltd
Speirs Finance Auckland Agency
Auckland

**Dave McKain & Campbell Tafft**
McKain & Tafft Ltd
Speirs Finance Waikato Agency
Hamilton

**Ian McCoy & Shane Rollo**
Bay Regional Finance Ltd
Speirs Finance Bay of Plenty Agency
Tauranga and Rotorua

**Darrel Nicholas**
Darnic Holdings Ltd
Speirs Finance Taranaki/Wanganui Agency
New Plymouth

**Nigel Watkin & John Sanko**
Hawkes Bay Finance Ltd & Sanko Financial Services Ltd
Speirs Finance Hawkes Bay Agency
Napier & Hastings

**Stan O'Dwyer**
Orca Finance Ltd
Speirs Finance Palmerston North Agency
Palmerston North

**Darren Cornforth**
Darren Cornforth Insurance and Financial Services Ltd
Speirs Finance Wairarapa Agency
Pahiatua

**Dave Whiting & Mike Keicher**
Whiting Financial Services Ltd
Speirs Finance Lower Hutt Agency
Lower Hutt

**Jeff Franks & Paul Rolton**
Cameron Chote Finance Ltd
Speirs Finance Wellington Agency
Wellington

**Ray Latham**
Cameron Chote Finance Ltd
Speirs Finance Kapiti Agency
Paraparaumu

**Steve Reid**
Finance Management NZ Ltd
Speirs Finance Nelson/Marlborough Agency
Nelson

**Richard Corliss & Chris Reid**
C & R Finance Ltd
Speirs Finance Christchurch Agency
Christchurch

**Stu Parker**
R&C Enterprises Ltd
Speirs Finance Christchurch Agency
Christchurch

**Francis Fitzgerald**
Partners Finance Ltd
Speirs Finance Christchurch Agency
Christchurch

**Murray Neil, Dean Driver & Peter Downing**
Southern Finance Group Ltd
Speirs Finance Dunedin Agency
Dunedin, Queenstown & Invercargill