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COMPANY DIRECTORY

SMITHS CITY GROUP LIMITED

DIRECTORS AND OFFICERS

CHAIRMAN	Craig David Boyce
DEPUTY CHAIRMAN	John Allen Dobson
DIRECTORS	Susan Jane Sheldon
	John William Holdsworth
	Richard Hellings
ALTERNATE DIRECTOR	Gerald Haworth Willis
MANAGING DIRECTOR	Richard Hellings

REGISTERED OFFICE	550 Colombo Street Christchurch
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BANKERS	The National Bank of New Zealand P O Box 454 Christchurch
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AUDITORS	KPMG P O Box 274 Christchurch
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SHARE REGISTRARS	Link Market Services P O Box 384 Ashburton
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ADDRESS FOR COMMUNICATIONS

POSTAL	P O Box 2343 Christchurch
TELEPHONE	03 9833000
FACSIMILE	03 9833031
EMAIL	group@smithscity.co.nz
WEBSITE:	www.smithscitygroup.co.nz

NOTICE OF ANNUAL MEETING

Notice is hereby given that the Annual Meeting of Shareholders of Smiths City Group Limited will be held in the Conference Room, Mancan House Conference Centre, Corner Cambridge Terrace and Manchester Street, Christchurch, at 10.00am on Friday 8 September 2006.

THE BUSINESS OF THE MEETING

ORDINARY BUSINESS

1. Annual Report - to receive the Annual Report for the year ended 30 April 2006.
2. Directors - to record the retirement by rotation as a Director of the company of Mr C D Boyce. Mr C D Boyce is eligible and available for re-election.
3. Directors - to record the retirement by rotation as a Director of the company of Mr J W Holdsworth. Mr J W Holdsworth is eligible and available for re-election.
4. Auditors - to record the appointment of the auditors, KPMG, and to authorise the Board of Directors to fix their remuneration for the ensuing year.

GENERAL BUSINESS

To consider any other business which may properly be brought before the meeting.

19 July 2006

By Order of the Board
G H WILLIS

PROXIES

A member entitled to vote at the meeting is entitled to appoint a proxy (whether a member or not) to attend and vote instead of the member. The form of proxy enclosed (if used) should be lodged at the Registered Office of the company or Link Market Services, the company's share registrar at P O Box 384, Ashburton by 10.00am on Wednesday 6 September 2006.

COMPANY PROFILE

Smiths City Group Limited (the Group) is a Christchurch based holding company for a group of businesses with revenues in excess of \$240million employing over 1,000 staff with approximately 2,400 shareholders. The Group's shares are listed on the New Zealand Stock Exchange.

The Group operates in three areas – retail trading; finance and property.

TRADING

The Group's retail operations comprise two groups – “Lifestyle stores” retailing a range of products including furniture, beds, floor coverings, appliances, consumer electronics and sporting goods; and “Specialist Appliance stores” retailing appliances and consumer electronics. The Group also operates a specialist furniture store, Furniture Concepts, in Christchurch.

- » The majority of the Lifestyle stores are branded Smiths City which has 18 stores spread throughout the South Island. On 1 April 2006 the company acquired the business assets of Meikles Limited. Based in Whakatane the acquisition includes four Lifestyle stores in the Bay of Plenty all of which trade as “Meikles, a division of Smiths City”. Smiths City will open a Lifestyle store in Palmerston North in August 2006.
- » The Specialist Appliance business comprises Powerstore, based in Christchurch operating nine stores in the South Island and L V Martin based in Wellington operating six stores in the lower half of the North Island.

Both the Lifestyle and Specialist Appliance stores operate in a manner consistent with the company's objective of providing a “full service” customer experience – i.e: they retail branded products, as opposed to discount non-branded product, supported by a full in-store and home delivery and installation service, as opposed to a check out cash and carry style operation.

Through a team of skilled trades people Alectra supports the retail activities by installing many of the products sold by the retail divisions including heating and air conditioning products, floor coverings and appliances. In addition, Alectra is a business to business wholesaler of building supplies, appliances and furnishings selling mainly to residential and commercial builders and the hospitality industry. Alectra opens up new markets to the Group that would not normally be open to a traditional retail only chain.

FINANCE

The Group provides flexible finance options for its customers of the retail divisions through Smithcorp Finance Limited. Smithcorp Finance Limited also provides unsecured loan facilities to customers with a proven credit history with the Group.

PROPERTY

Prime locations and superior store presentation are critical to the success of any retail organisation. The Group has recognised this and retained ownership of its flagship Smiths City store in Colombo Street, Christchurch. The property company also undertakes development projects to improve its retail tenancies where it can identify opportunities to enhance property occupied by a Group store and add value to that property. This ability provides a true competitive edge over other retailers.

In modern day retailing creating customer loyalty to a retail brand is becoming increasingly more difficult. The Group has built customer loyalty and market shares through a strong competitive advantage obtained by combining its own retail brands with some of the best known product brands in the country – brands such as Fisher & Paykel, Sleepyhead, Panasonic, Sony, Cavalier Bremworth and Philips – and with the creation of strong customer relationships built on quality product, in store service and in home deliveries and installation. This approach ensures that the customer has a true retail experience, rather than simply “buying something”.

HIGHLIGHTS OF THE YEAR

SUMMARY OF FINANCIAL RESULT

	ACTUAL 12 MTHS TO 30.4.06 (\$000)	ACTUAL 12 MTHS TO 30.4.05 (\$000)	
TOTAL OPERATING REVENUE	243,039	227,466	+6.8%
OPERATING PROFIT BEFORE TAXATION	5,209	5,187	+0.4%
Add Taxation Refund	383	3,574	
SURPLUS AFTER TAXATION	5,592	8,761	-36.2%
Less Minority Interest	(156)	(54)	
NET SURPLUS	5,436	8,707	-37.6%

FINANCIAL HIGHLIGHTS

- » Operating profit before tax increased by 0.4% to \$5.209million in difficult trading conditions.
- » Operating revenue increased by 6.8% to \$243.039million.
- » Increased dividend from 5.0cents per share to 5.5cents per share.
- » Gross dividend yield 9.0% up from 7.5% for 2005.
- » Gross assets increase 8.4% to \$177.951million.
- » Shareholders' funds exceed \$40million for the first time.

OPERATIONAL HIGHLIGHTS

- » Acquired the North Island business assets of Meikles Finance Limited and Meikles Limited which not only added a profitable finance operation to Smithcorp Finance Limited but also afforded a unique base from which the Group can take Smiths City back into the North Island.
- » Refurbished and increased in size the existing Smiths City Oamaru store and relocated to larger premises in the Bush Inn Centre, Riccarton, Christchurch. These enable the company to better service its customer base with a wider range of products and services.
- » Opened Smiths City Kaikoura thus improving service to the North Canterbury region, an area where Smiths City has traditionally received good customer support.
- » Redeveloped the Alectra headquarters in Watts Road, Christchurch, resulting in an integrated and efficient base for the operation leading to improvements in all facets of its service delivery.
- » Committed Smiths City to larger stores in Greymouth and Dunedin; Powerstore to larger premises in Timaru and to opening a Smiths City store in Palmerston North. In addition, committed to the acquisition of Star Appliances in Rotorua which will trade as L V Martin & Son Limited and be their first store outside of the Wellington region. Expansion such as this enables the company to increase its sales and, by holding Group administration costs, profitability.
- » Commenced the process of replacing the current Point of Sale system with an improved system designed to enhance the customer experience at the point of sale.

TREND STATEMENT

	2002	2003	2004	2005	2006
FINANCIAL PERFORMANCE	(\$000)	(\$000)	(\$000)	(\$000)	(\$000)
Operating Revenue	180,943	192,683	205,077	227,466	243,039
Profit Before Taxation	4,472	5,079	6,084	5,106	5,209
Add / (Deduct) Taxation Credit / (Expense)	(1,536)	(1,676)	(2,008)	3,574	383
Profit After Taxation	2,936	3,403	4,076	8,680	5,592
Add Dividend From Associate	430	645	258	81	0
Profit After Taxation And Dividend From Associate	3,366	4,048	4,334	8,761	5,592
FINANCIAL POSITION					
Assets					
Total Trading Assets	51,541	54,731	63,909	75,598	85,165
Finance Company Assets	79,413	83,213	85,263	88,612	92,786
Total Assets	130,954	137,944	149,172	164,210	177,951
Deduct Liabilities					
Total Trading Liabilities	32,070	34,520	40,243	47,569	55,030
Finance Company Liabilities	74,519	76,601	77,254	78,617	81,969
Total Liabilities	106,589	111,121	117,497	126,186	136,999
Net Group Assets	24,365	26,823	31,675	38,024	40,952
FINANCIAL POSITION RESTATING FINANCE COMPANY SUBSIDIARY AS AN INVESTMENT					
Total Trading Assets (As Above)	51,541	54,731	63,909	75,598	85,165
Net Finance Company Assets					
Receivables	79,160	82,406	84,517	86,119	91,704
Bank	253	807	746	2,493	1,082
Deduct Borrowings	(74,519)	(76,601)	(77,254)	(78,617)	(81,969)
Net Investment In Finance Company	4,894	6,612	8,009	9,995	10,817
Total Assets	56,435	61,343	71,918	85,593	95,982
Deduct Total Trading Liabilities (As Above)	32,070	34,520	40,243	47,569	55,030
Net Group Assets With Finance Company As An Investment	24,365	26,823	31,675	38,024	40,952
Key Ratios					
Net Profit Before Tax To Operating Revenue	2.5%	2.6%	3.0%	2.2%	2.1%
Net Profit After Tax To Operating Revenue	1.9%	2.1%	2.1%	3.9%	2.3%
Net Profit After Tax To Opening Net Assets	15.7%	16.6%	16.2%	27.7%	14.9%
Earnings Per Share (Cents)	6.36	7.64	8.18	16.54	10.56
Shareholders' Funds To Total Assets	18.6%	19.4%	21.2%	23.2%	23.0%
Shareholders' Funds To Assets With Finance Company As An Investment	43.2%	43.7%	44.0%	44.4%	42.7%
SUMMARY OF RETURNS TO SHAREHOLDERS					
Net Dividend Per Share - cents	3.0	3.0	3.5	5.0 (1)	5.5 (2)
Imputation Credits - cents	1.50	1.50	1.75	0.00	0.00
Gross Dividend Per Share - cents	4.50	4.50	5.25	5.00	5.50
30 April Share Price - cents	45	43	54	67	61
Gross Dividend Yield Based on 30 April Share Price	10.0%	10.5%	9.7%	7.5%	9.0%

(1) Excludes 1.5c special one off dividend payment. At 6.5cent Dividend The Yield = 9.7%.

(2) Dividend paid without imputation credits

DIRECTORS' REPORT

REPORT AND FINANCIAL STATEMENTS

Your Directors are pleased to submit to shareholders their Report and Financial Statements for the year ended 30 April 2006.

PRINCIPAL ACTIVITIES

Smiths City Group Limited is a New Zealand based and operated company. It has three principal activities being:

- » Retail Trading – the retailing of consumer electronic products, kitchen appliances, home heating solutions, home furnishings and sporting goods through the Smiths City, Powerstore and L V Martin brands, and through Alectra the retailing and provision of services to the commercial trade. In addition, Alectra provides after sales services to retail activities, all through Smiths City (Southern) Limited.
- » Finance – the provision of finance by Smithcorp Finance Limited to support the retailing operation.
- » Property – the ownership of the flagship Colombo Street retail property in central Christchurch through Smiths City Properties Limited which also takes advantage of opportunities to develop and enhance retail premises.

PROFIT

The company net profit after taxation was \$5.436million – compared to last year's \$8.707million. There were no abnormal items. Last year's result included a tax credit of \$3.574million. Earnings per share were 10.6cents down from 16.5cents last year.

SHAREHOLDERS' EQUITY

Shareholders' equity as at 30 April 2006 was \$40.952million, up 7.7% on prior year of \$38.024million.

DIVIDEND

The Directors have approved a final dividend of 4.0cents unimputed, which will be paid on 10 August 2006. Dividends paid for the year will be 5.5cents unimputed (last year 5.0cents unimputed which excluded a one off special dividend of 1.5cents).

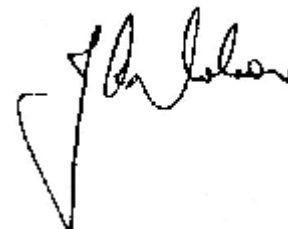
SIGNIFICANT CHANGES

There were no significant changes to the operations of the Group during the year.

STATUTORY INFORMATION

For information on Disclosure of Interest by Directors, Remuneration of Directors, Use of Company Information and Insurances refer to page 31 of this report

Dated 19 July 2006



C D BOYCE
CHAIRMAN

J A DOBSON
DEPUTY CHAIRMAN

CHAIRMAN'S REVIEW

On behalf of the Board of Directors I am pleased to report on a year of real progress particularly in the implementation of our strategy for growing the business.

SUMMARY OF FINANCIAL PERFORMANCE

The audited after tax profit of \$5.436 million for the year to 30 April 2006 compared with \$8.707million for the year to 30 April 2005. The major reason for the fall in after tax profit is that this year there is a tax credit (being a refund of tax paid last year) of \$0.383million whereas the 2005 result included a tax credit of \$3.574million (being a refund of tax paid in 2003 and 2004).

Pre-tax profit increased by 0.4% from \$5.187million to \$5.209million.

Operating revenues for the year increased from \$227.5million to \$243.0million. On a same stores basis revenues increased by 0.5%.

Trading conditions over the last twelve months have been very competitive. In last year's Chairman's Review and in my address to Shareholders at our Annual Meeting last September I emphasised the way in which the Smiths City Group results are closely tied to the economy – particularly interest rates, consumer confidence and national economic growth. We, as a business, tend to be a leading early indicator of any down turn and as the economy has softened the present year has proven to be no exception.

In particular, as interest free terms and the period of deferred payment options offered in the market place extended, we saw margins under pressure. Higher interest rates on all our borrowings including the finance company, Smithcorp Finance, had an adverse impact on the returns from both trading and finance.

The property market was more favorable and the company will continue to actively seek profitable property development opportunities arising from our retail tenancies.

The profit of \$5.436million after minorities of \$0.156million represents a return of 14.3% on opening shareholders' funds – marginally below the 15% target set by the Board.

DIVIDEND

The Directors have declared an unimputed final dividend of 4.0cents per share (last year 3.5cents) to be paid on 10 August 2006. This brings the dividend for the year to an unimputed 5.5cents per share (last year 5.0cents plus a one off 1.5cent special dividend in recognition of the taxation refund received by the company).

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As announced by New Zealand's Accounting Standards Review Board in late 2002, all companies will be required to prepare financial statements under New Zealand equivalents to International Financial Reporting Standards (NZIFRS) for no later than the financial year beginning on or after 1 January 2007, including comparative financial information for the financial year beginning on or after 1 January 2006.

Accordingly, it is the current intention of the Group to adopt NZIFRS from 1 May 2007. This means that the first NZIFRS compliant financial statements will be published for the half year ending 31 October 2007 and the full year ending 30 April 2008.

GROWTH

There is absolutely no doubt that we operate in a fiercely competitive part of the economy.

The big ticket retail market continues to change. In particular, the bigger players are getting stronger and we will continue to see new players enter our market. Tangible evidence of this can be seen with store closures by long established retailers as well as the move by others to de-emphasise big ticket retail products. At the same

time we have seen the growth of hypermarket style stores selling competing products to ours and are aware that Australian retailers of technology products intend entering the New Zealand market.

Our key points of difference to our competitors are our full service offering, ownership of our own finance company and the ability to develop our own retail outlets. For our customers a sale does not end at the cash register, but continues with a full delivery and installation service provided by Group personnel.

The main focus of the Board over the last 12 months has been to take advantage of our substantial carry forward tax losses by reinvesting the retained profits. From this we seek to improve our customer offering and put the company into a position where it can grow and improve shareholder value even when experiencing more difficult trading conditions. These changes have involved improvements to our existing business as well as the expansion of our North Island operations through the acquisition of Meikles and Star Appliances in the Bay of Plenty. The development of our North Island business depends on the continued growth and retention of the customer offering in our traditional South Island base.

Ownership of our own finance company has now become a very real advantage as other major retail companies have sold their finance companies. Control of our own finance company offers opportunities not only to enhance customer loyalty but also to identify profitable new business opportunities through existing business relationships.

As the property market has changed and the costs of acquisition and construction of retail sites have increased, rentals, particularly for key sites, have also increased. Our ability to identify and then develop our own locations through the skill base we have in Alectra is increasing in importance as a key competitive advantage.

OUTLOOK

We have commented over the last two years about the more difficult trading conditions as the economy has slowed and we are unlikely to see much change as we head into 2007. In short, we expect trading conditions to remain very competitive. The outlook after this is very much dependent on the impact of improved conditions for exporters and producers with the South Island "export economy" tending to lead New Zealand into the upturn.

The wide range of products we sell and the geographic spread of our existing stores offers some protection from any adverse trends in the economy. We have strong brands, management and staff who know our business and how to be successful. We have confidence in our full service retail model to provide a tangible point of difference to our competition. In addition the growth coming from the expansions into the North Island will continue to strengthen the company. In the last 10 years sales and operating profits of the company have doubled and we expect this to be achieved in the future.



C D BOYCE
CHAIRMAN

MANAGING DIRECTOR'S REVIEW

OPERATIONS

TRADING

The retail market is often split into three main categories – necessity e.g: food, petrol; discretionary e.g: fashion, restaurants, take away food and big ticket e.g: furniture, appliances, motor vehicles.

Smiths City operates in the big ticket arena where trading conditions in the 18 months to April have proven to be very demanding. In particular:

- » The impact of higher interest rates, higher fuel prices and higher power prices when combined with a softening building market have had an adverse impact on standard levels of demand.
- » Many of the products we sell are reducing in price and whilst this has stimulated short term demand for some, particularly technology products, it does result in the need to sell more units simply to keep sales revenue at the same level. This inevitably means more cost!
- » Business itself is not immune from the impact of cost increases and we are no exception.

We have responded to this in three key ways:

- » By maintaining market share in our established markets through competitive promotions and improving our customer offering in key locations.
- » By maintaining a real focus on costs in all areas of the business whilst at the same time improving efficiencies through better use of technology, and
- » By continuing the Group's growth strategy in the North Island.

Moves made to improve our customer offering in our South Island operations include:

- » Smiths City – during the financial year the Smiths City division completed the upgrade and expansion of the Smiths City Oamaru store, moved the Riccarton store to larger premises at the Bush Inn Centre, Christchurch; and opened a small format store in Kaikoura. Since balance date it has moved its Greymouth store into larger premises and in August will move to larger premises in Dunedin. These moves ensure that customers are provided with a far better range of product and a superior in-store shopping experience.
- » Powerstore – reductions in price points and convergence in technologies have significantly changed the appliance market. Accordingly, Powerstore has completed a full review of its operations to ensure its business model best suits the changing trading conditions. As a result of this review it closed its store in Blenheim but it has contracted to move to larger premises in Timaru – target date for completion August – and Dunedin – target date for completion September.
- » Alectra – the company has completed the redevelopment of the Watts Road site in Christchurch which provides a customised home base for Alectra. Alectra has also commenced a major redevelopment of the building supplies business in Rangiora which is scheduled for completion by October 2006.
- » Distribution – in order to improve efficiencies and stock management, particularly in the area of imported stock, the Christchurch Distribution Centre was moved to larger more suitable premises.

In an environment of reducing prices and increasing costs sustainable profit comes from increasing sales revenue whilst holding costs. The Group's growth strategy is based upon opening new markets in the North Island. In late 2004 the Group purchased 80% of L V Martins and this is trading well. L V Martin's established and experienced management team and consistently high levels of customer service have delivered real benefits. In May 2006 the company acquired the assets of Star Appliances in Rotorua and this is the first step in expanding L V Martin beyond the Wellington region.

As noted in the Chairman's Report the acquisition of Meikles now gives us a strong base for growth in the North Island under the Smiths City umbrella. In addition in August the Group will open a large format Smiths City store in Palmerston North. Management will now concentrate their efforts on ensuring that these businesses are successfully integrated into the Smiths City chain to ensure that the benefits of expansion in revenue whilst holding costs are achieved.

FINANCE

Changes in consumer legislation combined with higher interest rates have reduced profits in the short term from our finance business.

Smithcorp has continued to expand its Lifestyle Plus finance operation which provides flexible finance packages for our customers. We have amended our interest and fee charging mechanisms to increase revenues and seek new opportunities to further improve business levels and profitability from this source.

PROPERTY

Property is an important part of our ongoing business. In addition to owning our Colombo Street property, Smiths City Properties looks for opportunities in the market to better position our retail tenancies.

Whilst 2006 saw tough retail trading conditions, the property market was more favourable. As a result the lower returns from our trading and finance division were offset by an improved return from the Property division. The sale of the Wellington Ngauranga Gorge property purchased in 2005 and the sale of the developed Christchurch Watts Road property yielded a combined profit on sale of \$1.27million.

In November 2003 the Property division completed the \$6.1million development of our Colombo Street, Christchurch, property which resulted in an unrealised gain in the 2004 financial accounts of \$2.106million. In January 2006 the property was valued at \$20.3million by a registered valuer. This has resulted in an increase in value of \$2.7million which, in accordance with our accounting policy, will not be recognised in our balance sheet until the 2007 financial year.

The company will continue to actively seek profitable property development opportunities and we are currently in the process of assessing a development which, if it goes ahead, will be completed in the 2007 year.

STAFF

Working in retail is demanding on staff and their families. The loyalty, enthusiasm and the knowledge of our staff gives us a key competitive edge when we are compared with other retailers. In order to maintain this edge, training and people development are important to us and we constantly strive to improve skill levels throughout the organisation.

Included at page 34 of the Annual Report are the names of all staff who were part of the "Smiths City Group team" at the conclusion of this financial year. I would personally like to take this opportunity to thank all of them for their efforts.

SUMMARY

Looking ahead higher interest rates, fuel prices and the softening building market will continue to have an adverse impact on overall demand. We will continue to be competitive in the market place and ensure we maintain market share in the markets we participate in. In addition we will capture economies of scale in administration as we add more stores to our chains.



RICK HELLINGS
– MANAGING DIRECTOR

GOVERNANCE REPORT

The Board of Directors of Smiths City Group Limited acknowledges the need for the highest standards of Corporate Governance practice and ethical conduct. The Group's Corporate Governance processes do not materially differ from the NZX Corporate Governance Best Practice Code.

ROLE OF THE BOARD OF DIRECTORS

The Board is responsible for the proper direction and control of the Group's activities. This responsibility includes such areas of stewardship as:

- » Commercial Performance and Strategy Development
- » Financial and Dividend Policies
- » Identification and Control of Business Risks
- » Internal Control Systems
- » Compliance with Relevant Law
- » Business Plans and Budgets
- » Delegations of Authority
- » Identification and Control of Business Opportunities
- » Integrity of Management Information Systems
- » Reports to Shareholders

The Board currently comprises five Directors including the Managing Director of the Group. Two Directors – J A Dobson and S J Sheldon (who was appointed on 23 May 2005) are defined as independent.

GROUP MANAGEMENT STRUCTURE

The Groups' organisation structure is focused on its three main activities: trading; the provision of consumer finance and the maintenance and development of its property assets. This delivers an organisation that is focussed on all the key activities of the company.

RISK IDENTIFICATION AND MANAGEMENT

The Group has policies and procedures to identify areas of significant business risk and implement procedures to effectively manage those risks. Where appropriate, the Board obtains advice directly from external advisers. Once a significant business risk is identified, the Board is advised and action is taken promptly to mitigate and monitor or take advantage of the risk.

COMMITTEES

The Board has an Audit Committee, a Remuneration Committee and a Nomination Committee which meet as required. The terms of reference for the Committees are the responsibility of the entire Board.

The Audit Committee is accountable to the Board for recommendations of the external auditors, KPMG. It also monitors the audit function and reviews the annual audit process. The committee gives the Board assurance on the accuracy of the financial information in the Group's annual report. In addition, the committee is responsible for ensuring that the Group has effective internal controls. The committee met four times during the year under review.

The Remuneration Committee met to approve a contract with the Managing Director.

The Nominations Committee met to select a new Director.

SHARE TRADING PROTOCOL

The Board has a share protocol for its Directors and executives, specifying the rules under which shares can be traded in Smiths City Group Limited. Directors and executives must notify the company and obtain prior approval from the Board before trading in the company's shares. Trading is permitted, provided the person is not in possession of any non-public price sensitive information for up to five months after the announcement of the company's annual results and four months after the announcement of the company's half year results. This policy complies with the Securities Markets Act 1988 and its insider trading regulations.

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SMITHS CITY GROUP LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 APRIL 2006

		GROUP		PARENT	
	NOTE	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Operating Revenue		243,039	227,466	9,048	-
Ongoing Activities					
Surplus/(Deficit) Before Income Tax	1	5,209	5,187	8,483	(570)
Plus Taxation	10	383	3,574	246	3,611
Net Surplus For The Year		5,592	8,761	8,729	3,041
Deduct Minority Interest		(156)	(54)	-	-
Net Surplus After Income Tax		5,436	8,707	8,729	3,041
Earnings Per Share		10.6c	16.5c		

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 APRIL 2006

		GROUP		PARENT	
		30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
TOTAL EQUITY AT BEGINNING OF YEAR					
- Parent Interest		37,470	31,675	6,909	6,780
- Minority Interest		554	-	-	-
Net Surplus/(Deficit) for year					
- Parent Interest		5,436	8,707	8,729	3,041
- Minority Interest		156	54	-	-
Deduct dividend paid					
- Parent Interest		(2,652)	(2,912)	(2,652)	(2,912)
- Minority Interest		(12)	-	-	-
Minority Interest Contribution		-	500	-	-
TOTAL EQUITY AT END OF YEAR		40,952	38,024	12,986	6,909
Consists of: Parent Interest		40,254	37,470	12,986	6,909
Minority Interest		698	554	-	-
		40,952	38,024	12,986	6,909

These statements should be read in conjunction with the attached notes to the Financial Statements.

SMITHS CITY GROUP LIMITED
STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL 2006

		GROUP		PARENT	
	NOTE	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
ASSETS					
Cash and Short Term Deposits	2	31	26	7,952	4,002
Bank Account	2	3,897	474	-	-
Accounts Receivable	3	14,052	11,696	224	731
Property Intended For Sale		-	3,134	-	-
Intercompany Receivables		-	-	4,482	-
Inventory		40,669	35,577	-	-
CURRENT ASSETS (excluding Smithcorp)		58,649	50,907	12,658	4,733
Smithcorp Bank Balances and Deposits	4	1,081	2,493	-	-
Smithcorp Receivables - Current Portion	5	50,220	45,796	-	-
Smithcorp Receivables - Term Portion	5	41,484	40,323	-	-
TOTAL SMITHCORP ASSETS		92,785	88,612	-	-
Investments	6	284	120	15,291	15,127
Intangible assets	7	1,737	915	-	-
Property, Plant and Equipment	8	24,496	23,492	18	22
TOTAL ASSETS		177,951	164,046	27,967	19,882
LESS LIABILITIES					
Trade Creditors	9	34,805	27,180	856	144
Intercompany Payables		-	-	-	1,829
CURRENT LIABILITIES (excluding Smithcorp)		34,805	27,180	856	1,973
Smithcorp Borrowings Term Portion	12	81,969	78,617	-	-
TOTAL SMITHCORP LIABILITIES		81,969	78,617	-	-
Secured Borrowings Term Portion	11	20,225	20,225	14,125	11,000
TOTAL TERM LIABILITIES		20,225	20,225	14,125	11,000
TOTAL LIABILITIES		136,999	126,022	14,981	12,973
NET ASSETS		40,952	38,024	12,986	6,909
EQUITY					
Share Capital	13	10,652	10,652	10,652	10,652
Reserves	14	5,527	5,527	-	-
Retained Earnings (Deficit)	14	24,075	21,291	2,334	(3,743)
Shareholders' Funds		40,254	37,470	12,986	6,909
Minority Equity		698	554	-	-
TOTAL EQUITY		40,952	38,024	12,986	6,909
Total current assets		91,119	99,196	12,658	4,733
Total current liabilities		34,805	27,180	856	1,973

Smithcorp refers to Smithcorp Finance Limited

This statement should be read in conjunction with the attached notes to the Financial Statements.

SMITHS CITY GROUP LIMITED
STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 APRIL 2006

	GROUP		PARENT	
	30.4.06	30.4.05	30.4.06	30.4.05
	(\$000)	(\$000)	(\$000)	(\$000)
CASHFLOW FROM OPERATING ACTIVITIES				
CASH WAS PROVIDED FROM:				
Receipts From Customers	235,646	223,591	167	201
Receipt From Sale of Properties	9,128	-	-	-
Receipt of Dividend	-	81	9,048	81
Taxation Refund	655	3,174	682	3,174
Interest Received – Smithcorp	2,532	5,385	-	-
Interest Received - Other	265	759	150	759
	248,226	232,990	10,047	4,215
CASH WAS APPLIED TO:				
Payments to Suppliers and Employees	(227,604)	(216,914)	(1,034)	(1,902)
Purchase Properties Subsequently Sold	(4,450)	(3,134)	-	-
Interest Paid - Smithcorp	(5,900)	(5,656)	-	-
Interest Paid - Bank and Other	(1,943)	(2,073)	-	-
Taxation Paid	(50)	-	-	-
	(239,947)	(227,777)	(1,034)	(1,902)
NET CASH INFLOW FROM OPERATIONS (NOTE 19)	8,279	5,213	9,013	2,313
INVESTING ACTIVITIES				
CASH WAS PROVIDED FROM:				
Realisation of Investments	-	248	-	248
	-	248	-	248
CASH WAS APPLIED TO:				
Purchase of Shares in Subsidiary	-	(2,049)	-	(2,049)
Purchase of Property, Plant and Equipment	(3,599)	(1,999)	-	(5)
	(3,599)	(4,048)	-	(2,054)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(3,599)	(3,800)	-	(1,806)
FINANCING ACTIVITIES				
CASH WAS PROVIDED FROM:				
Receipts From Inter Company Advances	-	-	-	3,610
Receipt of Term Loan for Property	-	3,125	3,125	-
	-	3,125	3,125	3,610
CASH WAS APPLIED TO:				
Intercompany Advances	-	-	(5,536)	-
Dividends Paid	(2,664)	(2,912)	(2,652)	(2,912)
	(2,664)	(2,912)	(8,188)	(2,912)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	(2,664)	213	(5,063)	698
NET INCREASE IN CASH HELD	2,016	1,626	3,950	1,205
Opening Cash	2,993	1,367	4,002	2,797
Closing Cash	5,009	2,993	7,952	4,002
CLOSING CASH COMPRISES:				
Cash and Short Term Deposits	3,928	500	7,952	4,002
Smithcorp Bank Balances and Deposits	1,081	2,493	-	-
	5,009	2,993	7,952	4,002

This statement should be read in conjunction with the attached notes to the Financial Statements.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOR THE YEAR ENDED 30 APRIL 2006

A BASIS OF PREPARATION

Smiths City Group Limited is a company registered under the Companies Act 1993. The Financial Statements presented are those for Smiths City Group Limited (the Parent) and the Smiths City Group (the Group). The Group consists of the Parent and its subsidiaries and associates.

The Financial Statements comply with the Financial Reporting Act 1993 and comprise statements of the following: significant accounting policies, financial performance, movements in equity, financial position, cash flows, as well as the notes to these statements contained on pages 15 to 28 of this Annual Report.

The Financial Statements are prepared on the basis of historical cost except that land and buildings are stated at valuation.

The Financial Statements were authorised for issue by Directors on 19 July 2006.

B BASIS OF PREPARING GROUP FINANCIAL STATEMENTS SUBSIDIARIES

Subsidiaries are those entities controlled, directly or indirectly, by the Group. The financial statements of the subsidiaries are included in the Financial Statements using the purchase method of consolidation.

INVESTMENT IN ASSOCIATE

The Group has an interest in Adventure Brands Limited, in which it has a shareholding of 30%. This investment has been accounted for using the equity method.

INTRA-GROUP TRANSACTIONS

Intra-group balances and profits resulting from intra-group transactions are eliminated in preparing the Group financial statements.

C HIRE PURCHASE REVENUE

Prior to the introduction of provisions relevant to the Group of the Credit Contracts and Consumer Finance Act 2003 on 1 April 2005 income on instalment credit receivables was calculated using the Rule of 78 method.

The method of calculating income was, however, changed for instalment credit contracts entered into after 1 April 2005. For contracts entered into after this date income is recognised on an actuarial basis (effective interest method) calculated on the net amount outstanding basis.

Income related to future accounting periods on instalment credit receivables is recorded in the Statement of Financial Position as part of Smithcorp Finance Receivables. Refer to Note 5. The cost of instalment credit receivables made on deferred interest terms has been recognised.

D DEPRECIATION

Depreciation is charged on the following basis on all property, plant and equipment:

- Motor vehicles, office equipment,
furniture & fittings 20% straight line
- Plant & machinery 10% straight line
- Buildings 1% straight line

E LAND AND BUILDINGS

Land and buildings are stated at valuation as determined every three years by a registered independent valuer. The basis of valuation is fair value. Any surplus on revaluation of a class of land and buildings is transferred directly to equity unless it offsets a previous decrease in value recognised in the statement of financial performance, in which case it is recognised in the Statement of Financial Performance. A decrease in value relating to a class of land and buildings is recognised in the statement of financial performance where it exceeds the surplus previously transferred to equity.

Property intended for sale is stated at cost.

F OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment has been recorded at cost less accumulated depreciation.

G INTANGIBLE ASSETS

Purchased identifiable Intangible Assets comprising purchased brands, trade names and customer databases are shown at cost less any impairment write-downs.

Other intangible assets are amortised over a period not exceeding 5 years.

H STORE REFURBISHMENTS

Expenditure on the fitting out of new stores is capitalised and depreciated over the initial term of the lease. In respect of existing stores, refurbishment expenditure is capitalised and written off over 12 months.

I TAX

Income tax expense is recognised on the operating surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

J INVENTORY

Stocks consisting substantially of retail goods (a portion of which is subject to “retention of title clauses”) are valued at the lower of cost and net realisable value on bases consistent with previous years. In determining cost, the “weighted average cost” formula is followed. Stocks reduced from cost to net realisable value are valued on a specific identification basis.

K ACCOUNTS RECEIVABLE

Accounts receivable are valued at expected realisable value after making adequate provision for doubtful debts. All known losses are written off against income in the period in which they become evident. Receivables expected to have a non interest bearing period are discounted to their net present value using an appropriate discount rate.

L DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments with predetermined policies and limits in order to reduce fluctuations in exchange and interest rates. Forward rate agreements and swaps are used to reduce exposure to fluctuations in interest rates. Forward foreign exchange contracts are used to reduce exposure to fluctuations in exchange rates. Derivative financial instruments that are designated as hedges of specific items or economic exposures are recognised on the same basis as the underlying hedged items. The net differential paid or received on forwards and swaps is recognised as a component of interest expense or revenue over the period of agreement. Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss is recognised in the statement of financial performance. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

M LEASE COSTS

OPERATING LEASES – The trading operation of the Group leases properties for its retail and storage activities. Operating lease payments are included in the determination of the operating profit in equal instalments to monthly rentals paid or payable.

FINANCE LEASES – The interest expense component of finance lease payments is recognised in the Statement of Financial Performance using the effective interest rate method.

N OPERATING CASHFLOW

A substantial portion of the Group’s sales are made on hire purchase terms, which are funded through a long term arrangement with an independent finance company. This funding is included in operating cashflows.

O FOREIGN EXCHANGE

Foreign currency monetary assets and liabilities are translated into New Zealand Dollars at the rate of exchange ruling at balance date. Foreign currency transactions are translated at the rate of exchange ruling at the date of the transaction. Foreign exchange gains and losses are recognised in the Statement of Financial Performance.

P COMPARATIVES

Certain comparatives have been re-stated to provide a more meaningful comparison with the current accounting period.

Q CHANGES IN ACCOUNTING POLICY

All accounting policies have been consistently applied by the Parent and the Group and are consistent with the previous year.

SMITHS CITY GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: SURPLUS/(DEFICIT) BEFORE INCOME TAX

Surplus/(Deficit) Before Income Tax is arrived at after crediting (charging) the following items:

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
INCOME				
Interest - Smithcorp Deposits	80	45	-	-
Interest – Other	2,716	5,351	150	759
Dividend From Wairau Park	-	81	-	81
Foreign Exchange Gain	79	17	79	17
Intercompany Dividend	-	-	9,048	-
Profit on Sale of Property	1,270	-	-	-
Equity Earnings of Associate	164	-	164	-
EXPENSES				
Auditors' Remuneration				
- For Audit Services	(58)	(59)	(17)	(17)
- For Other Services	-	(27)	-	-
Bad Debts Written Off	(488)	(461)	-	-
Decrease in Bad Debts Provision	146	87	-	-
Depreciation				
- Property	(83)	(65)	-	-
- Leasehold Improvements	(559)	(522)	-	-
- Plant, Fittings and Equipment	(1,132)	(1,094)	(4)	(5)
Directors' Fees	(159)	(121)	(159)	(121)
Interest – Smithcorp Borrowings	(6,141)	(5,656)	-	-
Interest – Other Borrowings	(1,936)	(1,409)	(22)	-
Leasing and Rent Charges	(8,949)	(8,249)	-	-

NOTE 2: BANK BALANCES

CASH AND SHORT TERM DEPOSITS				
Cash and Bank Balances	(4,187)	(3,191)	22	311
Money Market Deposits	8,115	3,691	7,930	3,691
	<u>3,928</u>	<u>500</u>	<u>7,952</u>	<u>4,002</u>

NOTE 3: ACCOUNTS RECEIVABLE

Trade Receivables	9,351	7,934	-	-
Other Receivables and Prepayments	4,701	3,490	224	295
Taxation Receivables (Refer Note 10)	-	272	-	436
	<u>14,052</u>	<u>11,696</u>	<u>224</u>	<u>731</u>

NOTE 4: SMITHCORP FINANCE BANK BALANCES

Cash and Bank Balances	16	23	-	-
Money Market Deposits	1,065	2,470	-	-
	<u>1,081</u>	<u>2,493</u>	<u>-</u>	<u>-</u>

NOTE 5: SMITHCORP FINANCE RECEIVABLES

These represent Hire Purchase and Monthly "Option Plan" Receivables owned by the wholly owned finance company of the Group, Smithcorp Finance Limited.

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Hire Purchase and Optional Payment Plan Receivables	106,954	93,729	-	-
Less Provision for Unearned Income	(15,250)	(7,610)	-	-
	91,704	86,119	-	-
Comprises:				
Amount Receivable Within 1 Year	50,220	45,796	-	-
Amount Receivable Beyond 1 Year	41,484	40,323	-	-
	91,704	86,119	-	-
Provision for Unearned Income:				
Opening Balance	(7,610)	(5,308)	-	-
Plus Additions	(15,878)	(14,498)	-	-
Deduct Utilised	8,238	12,196	-	-
Closing Balance	(15,250)	(7,610)	-	-

NOTE 6: INVESTMENTS

Subsidiary Companies	-	-	15,007	15,007
Adventure Brands Limited	284	120	284	120
	284	120	15,291	15,127

The shareholding of the Group in Adventure Brands Limited has remained unchanged throughout the year at 30%.

The Group's share of the net assets as disclosed in the Statement of Financial Position of Adventure Brands Limited as at 31 March 2006 is \$284,528 (2005 \$168,392).

NOTE 7: INTANGIBLE ASSETS

Opening Balance	915	-	-	-
Additions at Cost	850	915	-	-
Less Amortisation	(28)	-	-	-
Closing Balance	1,737	915	-	-

NOTE 8: PROPERTY, PLANT & EQUIPMENT

GROUP	30.4.06 (\$000)				30.4.05 (\$000)			
	AT COST	AT VALUATION	ACCUM DEP	BOOK VALUE	AT COST	AT VALUATION	ACCUM DEP	BOOK VALUE
Land	273	9,420	-	9,693	-	9,420	-	9,420
Property Held For Sale	-	-	-	-	3,134	-	-	3,134
Buildings	-	8,256	(165)	8,091	-	8,256	(83)	8,173
TOTAL PROPERTY	273	17,676	(165)	17,784	3,134	17,676	(83)	20,727
Less Property Held For Sale	-	-	-	-	(3,134)	-	-	(3,134)
Leasehold Improvements	6,457	-	(4,423)	2,034	6,033	-	(3,864)	2,169
Plant, Fittings, Equipment	15,230	-	(10,552)	4,678	13,130	-	(9,400)	3,730
	21,687	-	(14,975)	6,712	19,163	-	(13,264)	5,899
TOTAL	21,960	17,676	(15,140)	24,496	19,163	17,676	(13,347)	23,492
PARENT								
Plant, Fittings, Equipment	27	-	(9)	18	27	-	(5)	22

Land and buildings are included in the Financial Statements at an independent valuation dated 30 April 2004 prepared by Fright Aubrey, Registered Valuers. The Directors' policy is to revalue properties in the books of the Group on a three year cycle.

Property Intended for Sale is stated as a current asset.

NOTE 9: TRADE CREDITORS

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Employee Entitlements	2,756	2,541	-	-
Trade Creditors and Other Accruals	32,049	24,639	856	144
Total Creditors and Accruals	34,805	27,180	856	144

NOTE 10: TAXATION

INCOME TAX EXPENSE				
Operating surplus/(deficit) before tax	5,209	5,187	8,483	(570)
Add Permanent Differences:				
Imputation Credits Received	45	-	22	-
Other	(1,159)	-	(243)	-
Dividends	-	-	(9,048)	-
Total Permanent Differences	(1,114)	-	(9,269)	-
Add/(Deduct) Timing Differences	(597)	588	(30)	(108)
Assessable Income/(Loss)	3,498	5,775	(816)	(678)
Tax Expense 33%	1,154	1,905	(269)	(224)
Less Imputation Credits	(45)	-	(22)	-
Current Tax Expense/(Credit)	1,109	1,905	(291)	(224)
Add Over Provision for Year	(383)	-	(246)	-
Less Tax Losses Utilised	(1,109)	(5,479)	291	(3,387)
Income Tax Expenses/(Credit)	(383)	(3,574)	(246)	(3,611)
TAXATION RECEIVABLE (PROVISION FOR TAXATION)				
Opening Balance	272	(128)	436	-
Credit/(Charge) for the Year	383	3,574	246	3,611
Less Refund Received	(655)	(3,174)	(682)	(3,174)
Prior Year Adjustment	-	-	-	(1)
Taxation Receivable/(Payable)	-	272	-	436

Inland Revenue has determined that the company and Group are able to carry forward losses for part of the 1999 tax year. In addition the Company and Group have gained access to tax losses totalling \$52.2million arising from the liquidation of Smiths City Limited in June 2002. Assessable income for the years from 2003 has been offset by some of these losses and the losses available as at 30 April 2006 are \$31.7million. The ability to utilise these tax losses in the future depends on the generation of sufficient assessable income, shareholder continuity and possible changes in legislation.

Deferred taxation has not been recognised in the Financial Statements as there is not virtual certainty of realisation.

IMPUTATION CREDIT ACCOUNT

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Opening Balance	159	4,444	159	813
Adjustment For Prior Years	25	4	-	2,224
Add Imputation Credits Received	1,352	506	-	-
Less Imputation Credits Utilised	(1,486)	(4,795)	-	(2,878)
Closing Balance	50	159	159	159

The account is a memorandum account only and does not form part of the Financial Statements.

NOTE 11: SECURED BORROWINGS

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Bank Advances and Bills including Long Term Portion of Advances	14,125	11,000	14,125	11,000
Advance for Property	6,100	9,225	-	-
	<u>20,225</u>	<u>20,225</u>	<u>14,125</u>	<u>11,000</u>
Less Current Portion	-	-	-	-
Term Portion of Term Loans	<u>20,225</u>	<u>20,225</u>	<u>14,125</u>	<u>11,000</u>

The Group's bank borrowings are secured by first ranking debenture stock under a composite debenture deed dated 16 October 1995.

NOTE 12: NATURE OF SECURITY OVER SMITHS CITY GROUP LIMITED ASSETS

There are the following charges over the assets of the Group:

Composite debenture over the assets of the Group excluding Smithcorp Finance Limited in favour of The National Bank of New Zealand Limited securing advances.

The Smithcorp Finance Limited borrowings are secured by a first ranking charge in favour of Fisher & Paykel Finance Limited over the total assets of Smithcorp Finance Limited under a deed dated 5 June 1998, as amended by supplemental deeds. The deed may be terminated by either party after giving 37 months notice. These assets have been consolidated as part of the Group financial statements.

NOTE 13: SHARE CAPITAL

Issued and Paid Up Capital				
Balance (52,956,884 Shares)	10,652	10,652	10,652	10,652

All shares are fully paid and have equal voting and dividend rights. Upon winding up all shares rank equally with regard to the Group's residual assets.

NOTE 14: EQUITY

	SHARE CAPITAL (\$000)	RETAINED EARNINGS (\$000)	CAPITAL RESERVES (\$000)	REVALUATION RESERVE (\$000)	TOTAL EQUITY (\$000)
GROUP 2006					
Balance at Start of Year	10,652	21,291	94	5,433	37,470
Add Surplus After Tax	-	5,436	-	-	5,436
Deduct Dividend Paid	-	(2,652)	-	-	(2,652)
Balance at End of Year	<u>10,652</u>	<u>24,075</u>	<u>94</u>	<u>5,433</u>	<u>40,254</u>
PARENT 2006					
Balance at Start of Year	10,652	(3,743)	-	-	6,909
Add Surplus After Tax	-	8,729	-	-	8,729
Deduct Dividend Paid	-	(2,652)	-	-	(2,652)
Balance at End of Year	<u>10,652</u>	<u>2,334</u>	<u>-</u>	<u>-</u>	<u>12,986</u>

Included under Group Equity is an amount of \$698,000 (2005 \$554,000) which is the minority interest.

NOTE 15: EMPLOYEE SHARE OWNERSHIP SCHEME

No shares were issued to staff under the Employee Share Ownership Scheme in the current year.

The total number of shares on issue is 350,000 being 0.66% of the total shares on issue in the Group. At balance date the market value of these shares was \$213,500 (61cents per share). The shares do not carry the entitlement to vote.

The staff share scheme is administered by Smiths City Staff Share Plan Trustees Limited, formerly Computerstore Limited (the "Trustee"). Smiths City Group Limited appoints the Directors of the Trustee. Shares have previously been issued under the terms of the Deed of Trust for the staff share scheme and have been issued fully paid to 11 senior members of the management team of the Group. The shares are funded by the Trustee who has made interest free loans to the participants.

These loans are to be repaid from future dividends over the next two years at the conclusion of which participants will have the choice of repaying any outstanding loans and taking up the shares. If the shares are not taken up they will be sold by the Trustee on the open market.

NOTE 16: RELATED PARTY TRANSACTIONS

Note 20 identifies all companies within the Group and Note 6 identifies the associate company. All of these companies are related parties to the Parent. Other than as identified below, there are no other related parties with whom material transactions have taken place.

RENTAL INCOME

The following rental income was received by a subsidiary company, Smiths City Properties Limited, from a subsidiary company:

	30.4.06	30.4.05
	(\$000)	(\$000)
Smiths City (Southern) Limited	1,772	1,264

This rental transaction is conducted on an arms length basis.

MANAGEMENT CONTRACT (GROUP AND PARENT)

Smiths City (Southern) Limited, a subsidiary company, entered into a management contract dated 1 November 2005 with Retail Management Services (2000) Limited to provide the services of Richard Hellings as Managing Director for a three year period to 31 October 2008 with an annual retainer of \$300,000 from 1 November 2005 plus an estimated annual incentive of \$10,613 plus the use of a motor vehicle and annual health premiums with an estimated cost of \$21,000 per annum. This contract was based on independent expert advice provided by Sheffield Consulting Group Limited.

INFORMATION TECHNOLOGY SERVICES

The company has an existing contract with Datacom Group Limited of which John Holdsworth and Craig Boyce, Directors of Smiths City Group Limited, are Directors, to provide information technology outsourcing services for the computer hardware and software facilities of the company. The transaction was completed on a commercial arms length basis within the Managing Director's delegated powers and involved the redeployment of some staff members from the subsidiary.

ADVENTURE BRANDS

The Group has a 30% holding in Adventure Brands Limited through a subsidiary. Purchases for the year were \$1,251,529 (2005 \$1,351,579). The amount owing at year end was \$229,399 (2005 \$28,660).

NOTE 17: COMMITMENTS

	GROUP		PARENT	
	30.4.06	30.4.05	30.4.06	30.4.05
	(\$000)	(\$000)	(\$000)	(\$000)
OPERATING LEASE LIABILITIES				
Not later than 1 year	9,492	6,731	-	-
Later than 1 year but not later than 2 years	8,052	5,618	-	-
Later than 2 years but not later than 5 years	14,083	9,344	-	-
Later than 5 years	4,604	306	-	-
	36,231	21,999	-	-

CAPITAL COMMITMENTS

The value of capital commitments at 30 April 2006 was \$nil (2005 \$nil).

CONTINGENT LIABILITIES

The Group has contingent liabilities of \$nil at balance date (2005 \$nil).

The Parent Company has guaranteed \$400,000 of borrowings by Adventure Brands Limited from The National Bank of New Zealand Limited (2005 \$400,000).

NOTE 18: FINANCIAL INSTRUMENTS

a) **CREDIT RISK**

Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable and Smithcorp receivables.

The Group performs credit evaluations on customers requiring credit but does not require collateral other than that available under hire purchase contracts. While the Group is subject to credit risk on all its bank balances and deposits it does not expect losses to occur as a result of such credit risks.

The Group seeks to ensure its counterparties are, and investments are with, reputable, high quality financial institutions.

Maximum exposures to credit risk at balance date are:

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Cash, Bank Balances and Short Term Deposits	3,928	500	7,952	4,002
Smithcorp Bank Balances and Deposits	1,081	2,493	-	-
Smithcorp Receivables	106,954	93,729	-	-
Accounts Receivable	14,052	11,696	-	731

b) **CONCENTRATION OF CREDIT RISK**

The Group is not exposed to any concentration of credit risk.

c) **INTEREST RATE RISK**

The Group generally adopts a policy of ensuring that its exposure to changes in interest rates is on a floating rate basis. Forward rate agreements and swaps are used to hedge repricing risk on floating rate borrowings.

Exposure to interest rate risk arises in the normal course of the Group's business. Derivative financial instruments are used as a means of reducing exposure to fluctuations in interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items being hedged.

The principal or contract amounts of derivative financial instruments outstanding at balance date were:

Forward Interest Rate Agreements	34,100	28,750	34,100	28,750
----------------------------------	--------	--------	--------	--------

The 2006 contracts comprise five back to back forward rate agreements structured in such a manner that when one matures another takes over.

d) **SMITHCORP BORROWINGS – HIRE PURCHASE PORTFOLIO**

The Group funds a significant portion of its hire purchase portfolio under a facility with an external finance company. The facility expires with 37 months notice by either party. Interest rates under the facility are reviewed and negotiated on a regular basis by both parties. The effective interest rate for the year ended 30 April 2006 was 8.13% (2005 7.69%).

e) **BANK FACILITY**

The Group has borrowing facilities of \$20,225,000 with the National Bank of New Zealand. The interest rate is variable, and is based on the buying rate for bank accepted bills. The effective rate of interest for the year ended 30 April 2006 was 8.05% (2005 7.32%).

f) **FOREIGN CURRENCY RISK**

The Group is exposed to foreign currency risk as a result of purchasing inventory in US Dollars. The Group hedges its exposure by maintaining a US Dollar bank account for these inventory purchases and entering into forward foreign exchange contracts.

The principal or contract amount of the forward foreign exchange contracts at balance date is \$3.5million (2005 \$1.8million). The Group has no material unhedged currency exposures at balance date.

g) FAIR VALUE

The carrying amount is the fair value for each of the following classes of financial instrument:

- Cash, Bank Balances and Short Term Deposits
- Smithcorp Bank Balances And Deposits
- Smithcorp Receivables
- Accounts Receivable
- Intercompany Receivables
- Smithcorp Borrowings

The fair values of the following financial instruments differ from their carrying values shown in the Statement of Financial Position:

	2006		2005	
	FAIR VALUE (\$000)	CARRYING VALUE (\$000)	FAIR VALUE (\$000)	CARRYING VALUE (\$000)
Forward Foreign Exchange Contracts	166	-	23	-
Forward Interest Rate Agreements	7	-	16	-

NOTE 19: RECONCILIATION OF NET PROFIT AFTER TAX WITH CASH INFLOW FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	30.4.06 (\$000)	30.4.05 (\$000)	30.4.06 (\$000)	30.4.05 (\$000)
Net Surplus per Statement of Financial Performance	5,592	8,761	8,729	3,041
Add non cash items:				
Share of Earnings From Associate	(164)	-	(164)	-
Depreciation	1,773	1,680	4	5
Adjusted surplus	7,201	10,441	8,569	3,046
Add/(Deduct) movements in other working capital items:				
(Increase)/Decrease in Smithcorp Receivables	(5,585)	411	-	-
Increase in Smithcorp Borrowings	3,352	1,363	-	-
(Increase) in Accounts Receivable	(2,356)	(1,774)	507	(636)
(Increase)/Decrease in Property Intended For Sale	3,134	(3,134)	-	-
(Increase) in Inventory	(5,092)	(1,427)	-	-
Increase/(Decrease) in Accounts Payable and Provisions	7,625	(667)	(63)	(97)
	1,078	(5,228)	444	(733)
Net cash inflow from operating activities GST exclusive	8,279	5,213	9,013	2,313

NOTE 20: SUBSIDIARY COMPANIES

The subsidiary companies, all with balance dates of 30 April and all wholly owned except for L V Martin & Son Limited which is 80% owned included in the consolidated accounts as at 30 April 2006 are as follows:

TRADING

- » Smithcorp Finance Limited - finance
- » Smiths City Properties Limited – property
- » Smiths City (Southern) Limited - retail
- » L V Martin & Son Limited – retail

NON TRADING

- | | |
|--------------------------------------|---------------------------------------------------------------------------------|
| » Smiths City (Auckland) Limited | » Quintana Investments Limited |
| » Smiths City (Nelson) Limited | » Smiths City (Wellington) Limited |
| » Smiths DIY (Southern) Limited | » Powerstore Limited |
| » Alectra Limited | » Smiths City Staff Share Plan Trustees Limited, formerly Computerstore Limited |
| » Smiths City (Christchurch) Limited | |

NOTE 21: SEGMENTAL REPORTING

The Group operates principally in the retail sector in the South Island of New Zealand. Segmental reporting within the context of Statement of Standard Accounting Practice number 23 issued by the Institute of Chartered Accountants of New Zealand, "Financial Reporting for Segments", is not required.

NOTE 22: EVENTS SUBSEQUENT TO STATEMENT OF FINANCIAL POSITION DATE

On 23 June 2006 the Directors announced to the NZX that they propose to pay a dividend of 4cents on 10 August 2006 (2005 3.5cents).

NOTE 23: ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group has an 80% shareholding in a subsidiary company, L V Martin & Son Limited, which purchased the trading assets of the L V Martin business on 1 November 2004.

The acquisition has the following effect on the consolidated financial position in the 2005 year.

	GROUP	
	30.4.06 (\$000)	30.4.05 (\$000)
Current Assets	-	3,603
Non Current Assets	-	4,621
Current Liabilities	-	(2,543)
	-	5,681
Less Minority Interest	-	(500)
Net Assets Acquired	-	5,181
Being:	-	
Operating Assets	-	2,547
Property	-	3,134
	-	5,681
Less Minority Interest	-	(500)
Consideration	-	5,181

NOTE 24: ACQUISITION OF BUSINESS

Smiths City (Southern) Limited, the Group's trading subsidiary, acquired certain assets and liabilities as part of the retail business operated by Meikles Limited. The acquisition took place on 1 April 2006.

The acquisition had the following effect on the consolidated financial position:

	GROUP	
	30.4.06 (\$000)	30.4.05 (\$000)
Stock	3,923	-
Net Financial Receivables	1,671	-
Fixed Assets	857	-
Intangibles	850	-
Creditors and Provisions	(159)	-
Consideration	7,142	-

NOTE 25: IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“NZIFRS”)

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards (NZIFRS) will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities have the option to adopt NZIFRS for periods beginning on or after 1 January 2005.

The Group intends to implement NZIFRS in its annual financial statements for the year ending 30 April 2008.

TRANSITION MANAGEMENT

The Group started a project to:

- a) Assess the key differences in accounting policies under NZIFRS and current accounting policies;
- b) Determine the impacts on the financial statements from transition, and
- c) Determine and to implement processes to deal with any related business impacts.

CHANGE IN ACCOUNTING POLICIES ON TRANSITION TO NZIFRS

Significant differences identified by the Group are outlined below. It should not be regarded as a complete list of changes in accounting policies that will result from the transition to NZIFRS, as some decisions have not yet been finalised where choices of accounting policies are available.

The Group has not yet completed an exercise to quantify the effects of the differences in accounting policies discussed below, and is therefore currently unable to reliably quantify impacts on the financial statements, which will arise from transitioning to NZIFRS. It is possible that the actual impact of adopting NZIFRS may vary from the information presented below, and the variation may be material.

The Group intends to provide further information, including quantifying the impacts of transitioning to NZIFRS in the Group's next annual financial statements for the year ending 30 April 2007.

DEFERRED TAX

On transition to NZIFRS deferred tax is provided using the balance sheet approach rather than the income statement approach currently applied. The balance sheet approach provides for all temporary differences between the carrying amount of assets and liabilities for accounting and tax purposes. Deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity or as part of a business combination.

Under NZIFRS a deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. At present a deferred taxation asset is recognised only when it is virtually certain that future taxable profits will be available.

HEDGE ACCOUNTING

The Group maintains an off-balance sheet portfolio of forward exchange contracts and currency options to hedge the currency risks associated with both future sales and purchasing requirements. The Group also uses financial instruments as hedges to manage exposure to interest rate risks.

Under NZIFRS (NZIAS39) all derivative contracts, whether used as hedging instruments or otherwise will be recognised at fair value in the Statement of Financial Position. Changes in the fair value of the derivatives will be recognised in the Statement of Financial Performance unless strict hedge criteria are met. The Group believes that it can meet the hedge accounting requirements for the majority of its derivative contracts.

REVENUE

Under NZIFRS financial service fees that are an integral part of the effective interest rate should be recognised as an adjustment to the effective interest rate.

Currently all financial service fees are recognised when they are earned.

NZIFRS 1 also allows a number of exemptions to assist in the transition to reporting under NZIFRS. The Group does not anticipate that they will utilise any NZIFRS 1 exemptions.

FURTHER INFORMATION

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STATUTORY INFORMATION

DISCLOSURES OF INTEREST

Directors have disclosed the following interests as Directors, Trustees, Members or Employees of Companies or other entities which may have material dealings with the company from time to time.

Craig David Boyce - Chairman

Bernard Matthews (New Zealand) Limited
Christchurch Arts Centre
Christchurch City Holdings Limited
Connexionz Limited
Datacom Group Limited
Extra Strength No 164 Limited
New Zealand Trade & Enterprise Limited (until 1 May 2006)
Orion Group Limited
Progressive Leather Limited
Snowy Peak Limited
Television New Zealand Limited (until 30 April 2006)

John Allen Dobson – Deputy Chairman

J A Dobson Limited
Real Journeys Limited
Gough Holdings Limited
Orion Group Limited
Securitised Equipment Holdings Limited
Securitised Equipment Receivables Limited
Rural Transport Limited
New Zealand Express Transport 2006 Limited
Wilson Bulk Transport

John William Holdsworth

Datacom Group Limited
L V Martin & Son Limited
Evander Management Limited

Richard Hellings

Adventure Brands Limited
Ferrymead Park Limited (Honorary)
Retail Management Services 2000 Limited
L V Martin & Son Limited

Susan Jane Sheldon

Freightways Limited
CanWest Media Works Limited
Christchurch International Airport Limited
Asure New Zealand Limited
Ngai Tahu Holdings Corporation Limited
FibreTech New Zealand Limited
FibreTech Holdings Limited
Nimbus Bedware Limited
The National Provident Fund

ORDINARY SHARE HOLDINGS BY DIRECTORS AND RELATED PARTIES

	<u>30.4.05</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>30.4.06</u>
Craig David Boyce	3,415,039	200,000	-	3,615,039
John Allen Dobson	451,579	-	-	451,579
John William Holdsworth	8,614,277	-	-	8,614,277
Richard Hellings	4,778,075	-	-	4,778,075

REMUNERATION AND OTHER BENEFITS

	<u>DIRECTORS'</u> <u>FEES</u>	<u>OTHER</u> <u>SERVICES</u>	<u>TOTAL</u> <u>REMUNERATION</u>
Craig David Boyce	55,825	-	55,825
John William Holdsworth	33,333	-	33,333
John Allen Dobson	38,750	-	38,750
Susan Jane Sheldon *	30,833	-	30,833
* Appointed 23 May 2005	158,741	-	158,741

INTERESTS REGISTER

Disclosures made in the interests register of the company, and its subsidiaries, during the year were by Messrs Boyce and Holdsworth, as Directors of Datacom Group Limited who declared an interest in a continuing contract with a subsidiary company to provide information technology outsourcing services for the computer and software facilities and Mr Hellings who recorded he is the major shareholder of Retail Management Services 2000 Limited which has a management contract with the company.

DIRECTORS' AND OFFICERS' INSURANCE

The company has effected Directors' and Officers' Liability Insurance and Statutory Liabilities and Defence Costs Insurance on behalf of the Directors and Officers. The company has also entered into indemnities with Directors and Officers as required by the company's Constitution. The insurance and indemnity do not cover liabilities arising from criminal action. Directors have completed Certificates of Indemnity and Insurance as required by Section 162 of the Companies Act 1993.

USE OF COMPANY INFORMATION

During the year the Board did not receive any notices from Directors of the company requesting the use of company information received in their capacity as Directors which would otherwise not have been available to them.

EXECUTIVE EMPLOYEE'S REMUNERATION

During the year the following numbers of employees received remuneration of at least \$100,000.

<u>REMUNERATION</u>	<u>NUMBER OF EMPLOYEES</u>
\$100,000-\$109,999	3
\$140,000-\$149,999	3
\$200,000-\$209,999	1
\$260,000-\$269,999	1

DONATIONS

During the year the Group made donations in cash or product of \$20,446 (2005: \$23,226).

In addition the Group extensively supports a number of local charitable organisations by involvement in fund raising activities such as raffles and lotteries. Much of this effort is put into raising funds in conjunction with the Group's retail promotions and media partners. The highlight of the year is undoubtedly the annual Christmas party held for children in Canterbury. Staff from Smiths City and families join with approximately 100 IHC children to celebrate the season and exchange gifts.

20 LARGEST REGISTERED HOLDERS OF EQUITY SECURITIES AS AT 14 JULY 2006

<u>HOLDER NAME</u>	<u>BALANCE</u>	<u>%</u>
John William Holdsworth	7,732,284	14.60
Retail Management Services 2000 Limited	4,778,075	9.02
Extra Strength No 164 Limited	3,615,039	6.83
New Zealand Central Securities Depository Limited	3,602,301	6.80
Arthur Christopher Peglar	1,150,649	2.17
Colin David Smith & Ian Russell Smith	1,061,241	2.00
Philip Julian Ericksen & Julian Hans Eriksen	1,000,000	1.89
Merrill Inez Holdsworth	881,993	1.67
Superannuation & Mutual Savings	878,600	1.66
Douglas Carrick Belton	839,433	1.59
Ace Finance Limited	823,357	1.55
Erroll Douglas George Scott	765,000	1.44
Margaret Anne O'Keefe	579,412	1.09
Russell Dillon Horlor	540,000	1.02
Probatus Investments Limited	485,020	0.92
J A Dobson Limited	451,579	0.85
ASB Nominees Limited	417,782	0.79
Lorraine Mary McCaffrey	405,000	0.76
Austen Herbert Stewart Kyle	405,000	0.76
William Aubrey Cocks	386,247	0.73
	<u>30,798,012</u>	<u>58.14</u>

DISTRIBUTION OF REGISTERED HOLDERS OF EQUITY SECURITIES AS AT 10 JULY 2006

<u>RANGES</u>	<u>NUMBER OF HOLDERS</u>	<u>NUMBER OF SECURITIES</u>	<u>%</u>
1-1,000	937	573,904	1.08
1,001-5,000	772	1,980,435	3.74
5,001-10,000	272	2,149,027	4.06
10,001-100,000	345	10,433,650	19.70
100,001 and above	62	37,819,868	71.42
	<u>2,388</u>	<u>52,956,884</u>	<u>100.00</u>

SUBSTANTIAL SECURITY HOLDERS

The following are Substantial Security Holders as at 30 June 2006 as defined by the Securities Markets Act 1988:

<u>Substantial Security Holder</u>	<u>Number Of Voting Securities With Beneficial Interest</u>	<u>Number Of Voting Securities With No Beneficial Interest</u>	<u>Total</u>	<u>%</u>
Richard Hellings	4,778,075	-	4,778,075	9.02
Craig David Boyce	3,615,039		3,615,039	6.83
John William Holdsworth	7,732,284	881,993	8,614,277	16.27

The total number of issued voting securities of Smiths City Group Limited as at that date was 52,956,884.

WAIVERS ISSUED BY NZX APPLICABLE AT 30 APRIL 2006

On 13 July 2005 NZXR granted a waiver from NZSX Listing Rule 9.2.1(e) to obtain shareholder approval for a material transaction with Mr Rick Hellings for a contract for management services on the basis that NZSX Listing Rule 9.2.4(c) applies and NZX is satisfied that the terms of the contract have been set on an arms length commercial basis. Refer Note 16 for details of the contract.

SMITHS CITY

Smiths City will celebrate its 88th year of trading this year and continues its proud tradition of supplying quality branded products at competitive prices. The division comprises 18 Smiths City stores selling lifestyle and homewares products and several Clearance Centres selling second hand and budget new furniture and appliances. Smiths City stores bring advantages of big city retailing to most regional areas of the South Island.

Smiths City is a full service retailer providing delivery, installation and, if required, a comprehensive after sales service.

We continue to develop our import program by expanding the product ranges. Management have also introduced an operational excellence program. Training and people development are also an important element and we continue to enhance skill levels throughout the business.

Smiths City also owns a specialist boutique furniture store – Furniture Concepts – which operates from the Armson Building in Moorhouse Avenue in Christchurch.

Highlights of the year were:

- » The acquisition of Meikles Limited, a family company founded in 1954 by John Meikle

initially selling books, homewares and sporting goods. Over the years these product lines have been expanded to appliances, furniture, beds, cycles, mowers, nursery and flooring division, and since our acquisition we have introduced fitness and outdoor products.

- » Completing the upgrade and expansion of the Smiths City Oamaru store, and relocating the Riccarton store to larger premises at the Bush Inn Centre thus improving the customer offering on both sites.
- » Opening our 18th store in Kaikoura in November 2005. This store has been welcomed by the Kaikoura public and has traded well since opening.
- » Completing negotiations to open a new store in Palmerston North in a high profile site. This store is set to start trading in August 2006.
- » Completion of negotiations to open a large format store in Dunedin. This store will significantly increase our floor area and profile in Dunedin. Opening is set for August 2006.
- » Re-branding the Clearance Centre in Christchurch to the “Outlet Store” providing us with more promotional and sales opportunities.



POWERSTORE

Powerstore is a chain of nine stores trading in seven South Island towns. Powerstore sells consumer electronics, computers and home appliances – large and small.

Powerstore sells only quality branded merchandise that is supported by strong distribution partners. We strive to find new opportunities to introduce products and technologies to our customer base.

Powerstore is a full service retailer which includes delivery and installing our products and, where appropriate, offering a comprehensive after sales service.

Highlights of the year for the Powerstore division were:

- » Reorganising our team to ensure a more focused approach from product management through to marketing and in store performance enhancing the customer's shopping experience.
- » Continuing to grow our share of the Flat Panel Television market.
- » Establishing a customer installation business in Christchurch to enhance our full service offering.
- » Our three major promotional Expo events – in Nelson, Christchurch and Invercargill – have continued to grow in awareness, profile and sales.



ALECTRA

Alectra operates in two parts. Firstly, it is a trades based support business to retail and, secondly, it operates as a business to business trading operation selling business supplies, appliances and home furnishings.

Alectra's service operations consist of:

- » A trades based operation which installs and services air conditioners, electrical and gas heating products, floor coverings, in-home entertainment systems, security and kitchen appliances sold through our retail operations. Alectra Services operates throughout the South Island and also provides after sales service where required.
- » An electrical contracting business based in Dunedin which designs and installs hard wiring, security, data, fire protection, heating and ventilation products for commercial customers. This operation also assists with retail store developments.

Alectra's business to business operation consists of:

- » Alectra Building Suppliers - a Canterbury based business with two sites – Rangiora and Watts Road, Christchurch. The Rangiora site is a timber yard supplying truss and frame and building products to the builders' trade. The

Watts Road site supplies board, panel, laminates and architectural hardware to the joinery market.

- » Alectra Commercial Fit Out - supplies products to commercial customers for the fit out of resorts, apartments, hotels and bars and residential dwellings including furnishings and carpets.

Highlights of the year for the Alectra division were:

- » Our continued commitment to train trades people – currently employing 28 apprentices.
- » Relocating Alectra to Watts Road, Christchurch, where a show room and interior designers provide a comprehensive service to commercial clients.
- » Construction of a new truss and frame plant plus drive through at Rangiora.
- » Rationalising all administration and management functions at Watts Road, Christchurch.
- » Successfully implementing the project management and installation of all electrical services to the Dunedin Airport Development.



L V MARTIN & SON LIMITED

L V Martin & Son Limited is a company 80% owned by Smiths City Group Limited. It was formed to purchase the trading assets of L V Martin's business in the Wellington region in November 2004.

L V Martin & Son retails high quality brands of white goods, consumer electronics and small appliances from five stores in the greater Wellington area and on a fully featured, selling Internet site.

The driving proposition for the business is *Excellence in Customer Service*.

While strongly promoting new technologies and the way in which they can enhance customer's lives, the focus strongly remains on all elements of customer service – listening, expert advice, delivery and installation; and, where necessary, after sales service.

The 72 year old brand is meeting the needs and expectations of the modern consumer while still providing long held values of trust and performance.

Relationships with customers have been enhanced

over the year with the maturing of the two new stores opened late in the previous financial year and the continued improvements made to the website.

Highlights for the year for L V Martin & Son were:

- » Being rated Number One in Customer Service by an independent national consumer organisation.
- » Implementing a company wide intranet to further enhance communication, training and information exchange and to provide a more solid base for geographic expansion.
- » Negotiating the purchase of Star Appliances in Rotorua to provide a material foothold in the Bay of Plenty; setting up growth for the brand strategically in line with the broader plans of the Smiths City Group.
- » Continuing the development of a strong team focused on achievement. A greater use of the Retail Industry Training Organisation has allowed access to a broader range of training opportunities and the opportunity for the trainees to have their efforts recognised within the national qualifications framework.



FINANCE & PROPERTIES

SMITHCORP FINANCE LIMITED

Smithcorp Finance Limited is the Group's finance company.

The major functions of this company are divided into two parts:

- » The provision of flexible finance options for the retail divisions. These options can be secured (hire purchase) or unsecured (revolving credit); and
- » The provision of unsecured loan facilities – under the brand “Lifestyle Plus” – to customers with a proven credit history with Smiths City.

In March 2006 the company acquired the business assets of Meikles Finance Limited. As at 30 April the gross value of the finance portfolio was approximately \$106.9million. There were approximately 95,500 active accounts.

The finance company has a three year “evergreen” funding facility in place with Fisher & Paykel Finance Limited. As at 30 April 2006 the amount financed was approximately \$82.0million.

SMITHS CITY PROPERTIES LIMITED

Smiths City Properties Limited is the Group's property company.

Prime locations and superior store presentation are critical to the success of any retail organisation. The Group has recognised this and retained ownership of its key Colombo Street location. Based in central Christchurch this site houses the Group's largest retail store (which contributes between 20% and 25% of the Group's sales) as well as the Group Administrative office.

The property company has also been used to undertake property developments for the retail organisation where considered appropriate by the Board. Two development opportunities arose during the year. Firstly, as part of the L V Martin transaction the property from which they trade in Ngauranga Gorge was purchased. This was sold to a third party with a lease back to L V Martin with a long term lease in place. Secondly, the Group successfully undertook the redevelopment of the Watts Road site from which Alectra operates and a sale of this property was completed during the 2006 financial year.

As rental rates are rising the ability to control our own destiny both from a rental and property development viewpoint is seen as a key part of our ongoing strategy.

ADMISSION CARD TO ANNUAL MEETING

Shareholders are invited to attend the Annual Meeting of Shareholders of Smiths City Group Limited to be held in the Conference Room, Mancan House Conference Centre, Corner Cambridge Terrace and Manchester Street, Christchurch, at 10.00am on Friday 8 September 2006.

- If you wish to attend the meeting please bring this admission card and ballot paper.
- If you are not attending and would like to appoint another person to act as your proxy please complete the lower two sections, fold and post so that it is received by Link Market Services no later than 48 hours before the start of the meeting.

_____ Holder No _____

Tear Here-----

PROXY FORM

I/We _____ being a shareholder of Smiths City Group Limited hereby appoint* _____ of _____ or failing him/her _____ of _____

as my/our proxy vote for me/us and on our behalf at the Annual Meeting of the company to be held on 8 September 2006 and at any adjournment thereof.

*The "Chairman of the Meeting" is willing to act as proxy for any shareholder who may wish to appoint him for that purpose.

VOTING INSTRUCTIONS/BALLOT PAPER

This form is to be used to vote as follows on the following resolutions:

I direct my proxy to vote as follows:

Fold Here-----

Ordinary Resolutions

	Indicate with tick			
	FOR	AGAINST	ABSTAIN	OPEN
1. To re-elect Mr Boyce as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr Holdsworth as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. To confirm the appointment of KPMG as Auditors and authorise Directors to fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Signed this _____ day of _____ 2006

Signature(s) of Shareholder(s) _____
(If joint shareholders, both must sign)

OFFICE USE ONLY

Shareholder No:

Holding:

Proxy forms must be delivered to the offices of Link Market Services at National Bank Chambers, 144 Tancred Street, P O Box 384, Ashburton before Wednesday 6 September 2006.

Notes

1. To be valid, proxy forms must be delivered to the office of Link Market Services at National Bank Chambers, 144 Tancred Street, P O Box 384, Ashburton not less than 48 hours before the starting time of the meeting.
2. A shareholder entitled to attend and vote is entitled to appoint a proxy.
3. A proxy can be any person, and does not have to be a shareholder. You can appoint the Chairperson of the meeting as a proxy.
4. A proxy for a company/corporation must be signed in accordance with that company's/corporation's constitution.
5. If no specific direction is given, the proxy holder may vote as he/she thinks fit, or abstain from voting.
6. All joint shareholders must sign the proxy form.
7. If the proxy form is signed under power of attorney, a certificate of non-revocation must be completed and forwarded with the proxy form, along with a copy of the power of attorney.

Freepost Authority Number 114982

SHARE REGISTRAR
Link Market Services
P O Box 384
ASHBURTON



Audit report

To the shareholders of Smiths City Group Limited

We have audited the financial statements on pages 15 to 28. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 April 2006. This information is stated in accordance with the accounting policies set out on pages 18 and 19.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 April 2006 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report 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:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain 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.

Other than in our capacity as auditors we have no relationship with or interests in the company.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 15 to 28:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 30 April 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 19 July 2006 and our unqualified opinion is expressed as at that date.

Christchurch

KPMG New Zealand, a member firm of
KPMG International, a Swiss cooperative

