

# Smiths City Group Limited

## **INTERIM REPORT & FINANCIAL STATEMENTS**

**31 OCTOBER 2005**

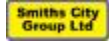


**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
INTERIM REPORT & FINANCIAL STATEMENTS  
31 OCTOBER 2005**

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**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
INTERIM REPORT & FINANCIAL STATEMENTS  
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**DIRECTORY**

**DIRECTORS AND OFFICERS**

CHAIRMAN

Craig David Boyce

DEPUTY CHAIRMAN

John Allen Dobson

DIRECTORS

Susan Jane Sheldon

John William Holdsworth

MANAGING DIRECTOR

Richard Hellings

ALTERNATE DIRECTOR

Gerald Haworth Willis

**REGISTERED OFFICE**

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Christchurch

**BANKERS**

The National Bank of New Zealand  
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Christchurch

**AUDITORS**

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Christchurch

**SHARE REGISTRAR**

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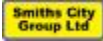
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**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
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**DIRECTORS' REPORT**

*SUMMARY OF FINANCIAL PERFORMANCE*

The Directors of Smiths City Group Limited have announced an unaudited pre-tax profit from operations of \$2.423million for the six months to 31 October 2005 – a decrease of 5.9% over the six months to 31 October 2004.

Last year a tax refund of \$1.371million was received in the period to 31 October 2004 bringing profit after taxation and minorities to \$3.945million. This year the after tax profit with virtually no tax payable due to carry forward tax losses is \$2.316million.

Total operating revenue for the period increased 12.3%. On a same stores basis sales were in line with the previous year.

*DIVIDEND*

The Directors have declared an interim dividend (without imputation credits) of 1.5cents per share (last year 1.5cents per share).

*OPERATIONS*

Smiths City operates in three markets – big ticket retail trading, finance and property.

Trading conditions in the big ticket market in the six months to October were challenging. The impact of higher interest rates, higher fuel prices and higher power prices when combined with the softening building market had, and continue to have, an adverse impact on standard levels of demand and margins. Retailers are responding by offering ever higher discounts and ever longer deferred payment options. This intense competition, whilst helping stimulate demand, definitely lowers margins.

The company has responded to these conditions by matching offers in the market place, lowering costs wherever possible and maximising the benefits of the higher dollar by the direct importing of a wider range of products. However without doubt it is becoming more difficult to sell sufficient volumes to offset reducing price points

The Board is aware of the difficulty of providing improved shareholder value in a market place where retail prices are reducing and the population, as it is in the South Island, is relatively static. In this environment it is essential to recognise the need to constantly improve your own performance within that market as well as to look for new markets both by product and geographically.

**DIRECTORS' REPORT (continued)**

To this end, in the period to October the company continued to improve its customer offering. In particular it completed the upgrade and expansion of the Smiths City Oamaru store, moved the Smiths City Riccarton store to larger premises at the Bush Inn Centre, Christchurch, and is currently undergoing a major redevelopment of the Alectra premises in Rangiora (scheduled for completion by July 2006). In December Smiths City opened a small format store in Kaikoura and has confirmed a contract to move into larger premises in Greymouth in mid-2006.

In order to improve efficiencies in stock management (particularly in the area of imported stock) the Christchurch Distribution Centre has moved to larger premises.

In the finance area our finance company – Smithcorp Finance Limited – has felt the impact of increasing interest rates. In addition, the new consumer legislation introduced in April 2005 has brought additional costs and led to some deferral of income recognition.

Lower returns from trading and finance have, however, been offset by an improved return from the property division. The Ngauranga Gorge property, purchased as part of the L V Martin transaction, was sold during the period.

**OUTLOOK**

November and December trading was reasonably soft although the post Christmas period was stronger than in previous years. However, the strong promotional offers in place during this period will inevitably have an adverse impact on margins.

Looking ahead, the company anticipates the remainder of the second six months will be as challenging as the last twelve months have proven to be. Smiths City continues to concentrate upon improving efficiencies, enhancing its customer offering and lowering its cost base to ensure that the company, at least maintains revenues and profits in challenging business conditions.

However, whilst it is clear that the economy is facing a difficult outlook business is always cyclical. The Board has determined that the current business cycle must not compromise its longer term plans and is, therefore, continuing to investigate opportunities to improve returns from all three trading operations. In particular, it is analysing opportunities to expand its North Island trading operations as well as to further improve its returns from the property division.

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
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**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR HALF YEAR ENDED 31 OCTOBER 2005**

|  | UNAUDITED<br>CURRENT<br>HALF<br>YEAR<br>YEAR<br>(000S) | UNAUDITED<br>PRIOR<br>HALF<br>YEAR<br>YEAR<br>(000S) | AUDITED<br>FULL<br>YEAR<br>30.4.05<br>(000S) |
|--|--|--|--|
| <b>OPERATING REVENUE</b>   |  |  |  |
| Total Operating Revenue  | 116,320  | 103,516  | 227,466                                      |
| <b>TRADING PROFIT</b>  | 2,423  | 2,542  | 5,106  |
| Plus Dividend From Associate   | 0  | 32   | 81   |
| <b>PROFIT FROM OPERATIONS</b>  | 2,423  | 2,574  | 5,187  |
| Plus (Less) Tax on Operating Profit  | (107)  | 1,371  | 3,574  |
| Net Surplus For The Period   | 2,316  | 3,945  | 8,761  |
| Net Surplus Attributable to Minority Interests                                   | (44)   | 0  | (54)   |
| <b>OPERATING PROFIT AFTER TAX<br/>ATTRIBUTABLE TO MEMBERS OF<br/>THE COMPANY</b> | 2,272  | 3,945  | 8,707  |

**STATEMENT OF MOVEMENTS IN EQUITY**  
**FOR HALF YEAR ENDED 31 OCTOBER 2005**

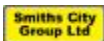
|                                    | UNAUDITED<br>CURRENT<br>HALF<br>YEAR<br>YEAR<br>(000S) | UNAUDITED<br>PRIOR<br>HALF<br>YEAR<br>YEAR<br>(000S) | AUDITED<br>FULL<br>YEAR<br>30.4.05<br>(000S) |
|------------------------------------|--|--|--|
| Equity at Beginning of Period      |  |  |  |
| - Parent Interest                  | 37,470   | 31,675   | 31,675                                       |
| - Minority Interest                | 554  | 0  | 0  |
| Add Minority Interest Contribution | 0  | 0  | 500  |
| Add Net Surplus for the Period     |  |  |  |
| - Parent Interest                  | 2,272  | 3,945  | 8,707  |
| - Minority Interest                | 44   | 0  | 54   |
| Deduct Dividend Paid               |  |  |  |
| - Parent Interest                  | (1,857)  | (1,328)  | (2,912)                                      |
| Equity at End of Period            | 38,483   | 34,292   | 38,024                                       |
| Consists of:                       |  |  |  |
| - Parent Interest                  | 37,885   | 34,292   | 37,470                                       |
| - Minority Interest                | 598  | 0  | 554  |
|                                    | 38,483   | 34,292   | 38,024                                       |

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
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**STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY**  
**FOR HALF YEAR ENDED 31 OCTOBER 2005**

|  | UNAUDITED<br>CURRENT<br>HALF<br>YEAR<br>(000S) | UNAUDITED<br>PRIOR<br>HALF<br>YEAR<br>(000S) | AUDITED<br>FULL<br>YEAR<br>30.4.05<br>(000S) |
|--|--|--|--|
| <b>CURRENT ASSETS</b>                      |  |  |  |
| Cash and Short Term Deposits               | 27   | 21   | 26   |
| Bank Accounts                              | 3,011  | 2,080  | 3,665  |
| Accounts Receivable                        | 14,672   | 10,075                                       | 11,424                                       |
| Taxation Receivable                        | 0  | 579  | 272  |
| Property Intended for Resale               | 4,454  | 0  | 3,134  |
| Inventories                                | 37,345   | 33,900                                       | 35,577                                       |
| Deposit on Investment                      | 0  | 1,000  | 0  |
| <b>TOTAL CURRENT ASSETS</b>                | <b>59,509</b>                                  | <b>47,655</b>                                | <b>54,098</b>                                |
| <b>SMITHCORP ASSETS</b>                    |  |  |  |
| Smithcorp Bank Balances and Deposits       | 424  | 1,000  | 2,493  |
| Smithcorp Receivables – Current Portion    | 54,489   | 47,977                                       | 45,796                                       |
| Smithcorp Receivables – Term Portion       | 27,824   | 38,994                                       | 40,323                                       |
| <b>TOTAL SMITHCORP ASSETS</b>              | <b>82,737</b>                                  | <b>87,971</b>                                | <b>88,612</b>                                |
| <b>OTHER ASSETS</b>                        |  |  |  |
| Investments                                | 120  | 120  | 120  |
| Intangible Assets                          | 915  | 0  | 915  |
| Property, Plant and Equipment              | 23,551   | 22,779                                       | 23,492                                       |
| <b>TOTAL OTHER ASSETS</b>                  | <b>24,586</b>                                  | <b>22,899</b>                                | <b>24,527</b>                                |
| <b>TOTAL ASSETS</b>                        | <b>166,832</b>                                 | <b>158,525</b>                               | <b>167,237</b>                               |
| <b>CURRENT LIABILITIES</b>                 |  |  |  |
| Accounts Payable                           | 21,081   | 19,572                                       | 19,951                                       |
| Bank Overdraft                             | 5,488  | 4,087  | 3,191  |
| Provisions                                 | 8,190  | 6,359  | 7,229  |
| <b>TOTAL CURRENT LIABILITIES</b>           | <b>34,759</b>                                  | <b>30,018</b>                                | <b>30,371</b>                                |
| <b>TOTAL SMITHCORP FINANCE LIABILITIES</b> |  |  |  |
| Finance Receivable Borrowings              | 73,365   | 77,115                                       | 78,617                                       |
| <b>NON CURRENT LIABILITIES</b>             |  |  |  |
| Secured Borrowings                         | 20,225   | 17,100                                       | 20,225                                       |
| <b>TOTAL TERM LIABILITIES</b>              | <b>20,225</b>                                  | <b>17,100</b>                                | <b>20,225</b>                                |
| <b>TOTAL LIABILITIES</b>                   | <b>128,349</b>                                 | <b>124,233</b>                               | <b>129,213</b>                               |
| <b>NET ASSETS</b>                          | <b>38,483</b>                                  | <b>34,292</b>                                | <b>38,024</b>                                |
| <b>EQUITY</b>                              |  |  |  |
| Share Capital                              | 10,652   | 10,652                                       | 10,652                                       |
| Revaluation Reserves                       | 5,433  | 5,433  | 5,433  |
| Other Reserves                             | 94   | 94   | 94   |
| Retained Profits                           | 21,706   | 18,113                                       | 21,291                                       |
| Minority Interests                         | 598  | 0  | 554  |
| <b>TOTAL EQUITY</b>                        | <b>38,483</b>                                  | <b>34,292</b>                                | <b>38,024</b>                                |



**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
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**STATEMENT OF CASHFLOWS**  
**FOR THE HALF YEAR ENDED 31 OCTOBER 2005**

|   | UNAUDITED<br>CURRENT<br>HALF<br>YEAR<br>000S | UNAUDITED<br>PRIOR<br>HALF<br>YEAR<br>000S | AUDITED<br>FULL<br>YEAR<br>30.4.05<br>000S |
|---|--|--|--|
| <b>CASHFLOWS FROM OPERATING ACTIVITIES</b>        |  |  |  |
| Cash Provided From:                               |  |  |  |
| Receipts From Customers                           | 110,933                                      | 93,877                                     | 223,591                                    |
| Interest From Customers                           | 1,314  | 3,698                                      | 5,385                                      |
| Dividend Received                                 | 0  | 32   | 81   |
| Tax Refund  | 1,404  | 1,371                                      | 3,174                                      |
| Interest Received                                 | 115  | 253  | 759  |
| <b>TOTAL CASH PROVIDED</b>                        | <b>113,766</b>                               | <b>99,231</b>                              | <b>232,990</b>                             |
| Cash Applied To:                                  |  |  |  |
| Payments To Suppliers and Employees               | 110,200                                      | 94,138                                     | 216,914                                    |
| Interest Paid                                     |  |  |  |
| Finance Company                                   | 2,930  | 2,716                                      | 5,656                                      |
| Bank and Other                                    | 913  | 982  | 2,073                                      |
| Income Taxes Paid                                 | 0  | 710  | 0  |
| <b>TOTAL CASH APPLIED</b>                         | <b>114,043</b>                               | <b>98,546</b>                              | <b>224,643</b>                             |
| <b>NET CASHFLOW FROM OPERATING ACTIVITIES</b>     | <b>(277)</b>                                 | <b>685</b>                                 | <b>8,347</b>                               |
| <b>CASHFLOWS FROM INVESTING ACTIVITIES</b>        |  |  |  |
| Cash Provided From:                               |  |  |  |
| Sale of Property, Plant & Equipment               | 3,134  | 0  | 0  |
| Proceeds From Realisation of Investment           | 0  | 248  | 248  |
| <b>TOTAL CASH PROVIDED</b>                        | <b>3,134</b>                                 | <b>248</b>                                 | <b>248</b>                                 |
| Cash Applied To:                                  |  |  |  |
| Purchase Property, Plant & Equipment              | (5,399)                                      | (958)                                      | (5,133)                                    |
| Short Term Loan to Another Entity                 | (620)  | 0  | 0  |
| Purchase Shares in Subsidiary                     | 0  | (1,000)                                    | (2,049)                                    |
| <b>TOTAL CASH APPLIED</b>                         | <b>(6,019)</b>                               | <b>(1,958)</b>                             | <b>(7,182)</b>                             |
| <b>NET CASHFLOW USED IN INVESTING ACTIVITIES</b>  | <b>(2,885)</b>                               | <b>(1,710)</b>                             | <b>(6,934)</b>                             |
| <b>CASHFLOWS FROM FINANCING ACTIVITIES</b>        |  |  |  |
| Cash Provided From:                               |  |  |  |
| Property Redevelopment Borrowings                 | 0  | 0  | 3,125                                      |
| <b>TOTAL CASH PROVIDED</b>                        | <b>0</b>                                     | <b>0</b>                                   | <b>3,125</b>                               |
| Cash Applied To:                                  |  |  |  |
| Pay Dividend                                      | (1,857)                                      | (1,328)                                    | (2,912)                                    |
| <b>TOTAL CASH APPLIED</b>                         | <b>(1,857)</b>                               | <b>(1,328)</b>                             | <b>(2,912)</b>                             |
| <b>NET CASHFLOWS USED IN FINANCING ACTIVITIES</b> | <b>(1,857)</b>                               | <b>(1,328)</b>                             | <b>213</b>                                 |
| <b>NET INCREASE/(DECREASE) IN CASH HELD</b>       | <b>(5,019)</b>                               | <b>(2,353)</b>                             | <b>1,626</b>                               |
| Cash and Bank at Beginning of Period              | 2,993  | 1,367                                      | 1,367                                      |
| <b>Cash and Bank at End of Period</b>             | <b>(2,026)</b>                               | <b>(986)</b>                               | <b>2,993</b>                               |



**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
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**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies**

These Financial statements are unaudited and have been prepared in accordance with FRS-24, Interim Financial Statements, and should be read in conjunction with the previous Annual Report as at 30 April 2005. The accounting policies used are consistent with those used in previously published Interim Financial Statements and the previous Annual Report dated 30 April 2005.

**2. Interest Revenue and Interest Expense**

Operating surplus before taxation is calculated after crediting (charging) the following items:

|                    | UNAUDITED<br>CURRENT<br>HALF<br>YEAR<br>2005<br>(000S) | UNAUDITED<br>PRIOR<br>HALF<br>YEAR<br>2004<br>(000S) | AUDITED<br>FULL<br>YEAR<br>2004<br>30.4.04<br>(000S) |
|--------------------|--|--|--|
| - Interest Revenue | 1,314  | 2,186  | 5,396  |
| - Interest Expense | (3,843)  | (3,698)  | (7,728)  |

**3. Reconciliation of Net Profit After Tax With Cash Inflow From Operating Activities**

|  |         |         |         |
|--|---------|---------|---------|
| Net Surplus Per Statement of Financial Performance | 2,316   | 3,945   | 8,761   |
| - Add Depreciation                                 | 886     | 779     | 1,680   |
| - Adjusted Net Surplus                             | 3,202   | 4,724   | 10,441  |
| <br>Add/(Deduct) Movements in Working Capital      |         |         |         |
| (Increase)/Decrease in Smithcorp Receivables       | 3,806   | (440)   | 411     |
| Increase/(Decrease) in Smithcorp Borrowings        | (5,253) | (139)   | 1,363   |
| (Increase)/Decrease in Receivables                 | (2,355) | (1,799) | (2,174) |
| (Increase)/Decrease in Inventories                 | (1,768) | (1,856) | (1,427) |
| Increase/(Decrease) in Current Liabilities         | 2,091   | 195     | (267)   |
| Movements in Working Capital                       | (3,479) | (4,039) | (2,094) |
| Net Cashflow From Operating Activities             | (277)   | 685     | 8,347   |

**4. Commitments and Contingent Liabilities**

The Group has capital commitments of \$Nil (2004 \$Nil). The parent company has guaranteed \$400,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand (2004 \$400,000). The Group has contingent liabilities of \$Nil (2004 \$Nil).

**5. Event After Balance Date**

On 21 December 2005 the company announced it had entered into a conditional agreement to sell its property at 10-18 Watts Road, Christchurch for \$5.5million due on settlement at 31 March 2006 or earlier by agreement.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****6. Implementation of 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.

During 2005 a project team was established to plan for the transition to NZIFRS and identify the impacts of implementation. A high level overview has been completed and reported to the Audit Committee of the Board.

The project team also examined the potential implications of adopting NZIFRS from 1 May 2005 and decided not to early-adopt the new standards.

The two main reasons for choosing not to early-adopt were, firstly, to reduce the risk of inconsistent application of NZIFRS compared to other retailers, and, secondly, to allow time for increased shareholder and analyst understanding of the earnings volatility that will result from the transition.

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.

To date the project team has identified a number of accounting policy changes that will be required although some of these are subject to interpretation and further review before the impact on the Group is fully understood. The areas of significant difference for the Group, between New Zealand Generally Accepted Accounting Practice (NZGAAP) and NZIFRS are set out below:

**Accounting for Goodwill**

In accordance with existing NZGAAP, goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. Under NZIFRS goodwill is no longer amortised but is required to be annually reviewed for impairment, according to strict tests, and any loss in value recognised as an expense at the time the loss in value is identified.

At 30 April 2005 and also at 31 October 2005 there is no goodwill on the balance sheet, therefore the new NZIFRS policies will apply only to goodwill acquired in the future.

**Taxation**

Under NZIFRS deferred tax will be calculated using a "balance sheet" approach which recognises deferred tax assets and liabilities by reference to differences between the accounting and tax values of balance sheet items rather than the accounting and tax values recognised in the Statement of Financial Performance. It is expected that, on adoption of NZIFRS, the Group will be required to carry higher levels of deferred tax assets and liabilities.

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**NOTES TO THE FINANCIAL STATEMENTS (continued)**

*Hedge Accounting*

The Group maintains an off balance sheet portfolio of forward exchange contract and currency options to hedge the currency risks associated with its future purchasing requirements of overseas sourced inventories. Under the NZGAAP these contracts are accounted for as hedges with any gains or losses deferred and recognised when the hedged transaction occurs.

The Group also uses financial instruments as hedges to manage exposure to interest rate risks.

Under NZIFRS all derivative contracts, whether used as 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 project team is currently investigating how the Group will manage currency exposures and reported earnings volatility in the future.

*Summary*

These differences have been identified based on the current Group position and accounting policies. Any changes to these will be assessed for the NZIFRS implications as applicable. Readers should be aware that the actual impact of adoption in 2008 may differ from the information presented above. As such the Group is not yet in a position to quantify the differences that may arise from changes to the accounting policies under NZIFRS. We will continue with our preparatory work over the coming months to ensure all necessary changes to our accounting policies, procedures and systems are implemented in sufficient time to enable us to understand and comply with the requirements of the new standards.

**Smiths City  
Group Ltd**

[www.smithscitygroup.co.nz](http://www.smithscitygroup.co.nz)