

06

INTERIM REPORT  
& FINANCIAL STATEMENTS

31 OCTOBER 2006

**Smiths**  
**City**  
Group



**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
INTERIM REPORT & FINANCIAL STATEMENTS  
31 OCTOBER 2006**

**CONTENTS**

DIRECTORY .....	1
DIRECTORS' REPORT .....	2-3
STATEMENT OF FINANCIAL PERFORMANCE .....	4
STATEMENT OF MOVEMENTS IN EQUITY.....	4
STATEMENT OF FINANCIAL POSITION.....	5
STATEMENT OF CASHFLOWS.....	6
NOTES TO THE FINANCIAL STATEMENTS .....	7-9

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
INTERIM REPORT & FINANCIAL STATEMENTS  
31 OCTOBER 2006**



**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**

550 Colombo Street  
Christchurch

**BANKERS**

The National Bank of New Zealand  
P O Box 454  
Christchurch

**AUDITORS**

KPMG  
P O Box 274  
Christchurch

**SHARE REGISTRAR**

Link Market Services  
P O Box 384  
Ashburton  
+64 3 3088887

TELEPHONE

**ADDRESS OF COMMUNICATION**

POSTAL

P O Box 2343  
Christchurch

TELEPHONE

+64 3 9833000

FACSIMILE

+64 3 9833031

EMAIL

[group@smithscity.co.nz](mailto:group@smithscity.co.nz)

WEBSITE

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



**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES  
INTERIM REPORT & FINANCIAL STATEMENTS  
31 OCTOBER 2006**

**DIRECTORS' REPORT**

**SUMMARY OF FINANCIAL PERFORMANCE**

The Directors of Smiths City Group Limited have announced an unaudited pre-tax profit from operations of \$2.049 million for the six months to 31 October 2006 – a decrease of 9.8% over the six months to 31 October 2005. Total operating revenue for the period increased 16.3%. On a same stores basis sales increased by 4.4%.

**DIVIDEND**

The Directors have declared an un-imputed interim dividend of 1.5 cents per share (last year 1.5 cents per share).

**REVIEW OF OPERATIONS**

The company has commented for some time that trading conditions in big ticket are challenging. Whilst deflation in prices has helped stimulate demand the impact of higher interest rates, fuel prices, power prices and the softening building market continue to have an adverse impact on demand. We also continue to see new stores open and new players enter into our product categories. As evidenced by the promotional offers in the market place in December, retailers are responding by reducing prices, offering higher discounts and longer deferred payment options all of which result in lower net margins.

Throughout the last six months we have protected our market share by matching such offers. In addition we have concentrated on realising the synergies from recent acquisitions, lowering costs wherever possible and maximising the benefits of the higher dollar by the direct importing of a wider range of products.

Given these trading conditions the growth in sales over last year recorded by the trading company was pleasing. However, it was disappointing that the intense competition experienced together with certain unavoidable increases in our own expense levels meant we were unable to immediately take the benefits of those increased sales to our bottom line.

The Christmas/New Year period is important to the trading results of all retailers. November and December trading to date, whilst ahead of last year, was below expectations primarily due to the cool weather slowing sales of summer products such as camping equipment, outdoor furniture, lawnmowers and barbecues. In addition, as trading patterns change, the post-Christmas trading period continues to increase in importance. The promotional offers we need to match in the marketplace during this time are becoming more aggressive and this inevitably impacts on margins.

**DIRECTORS' REPORT (continued)**

Amendments to our systems have brought the finance company charging regime to customers more into line with other finance companies. Resulting increases in both interest and fees received together with a positive contribution from the acquired assets of Meikles Finance Limited have yielded an improved profit from Smithcorp Finance.

The property company result was down on last year where the result included a profit of \$453,000 on the sale of the Ngauranga Gorge property in Wellington. In December the company purchased a property in Central Gore which will, once developed, enable the Powerstore and Smiths City operations to merge providing an improved customer experience in that town.

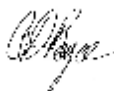
**OUTLOOK**

Looking ahead, the company anticipates the second six months will be as challenging as the last eighteen months have proven to be. However, the Board has confirmed its commitment to the long term benefits of the company's growth plans, as it recognises that current trading conditions are part of an ongoing business cycle.

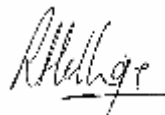
As tangible evidence of implementing these plans, in the last six months the Smiths City chain has moved to larger premises in Greymouth, moved from Mosgiel to larger premises in South Dunedin and opened a new store in Palmerston North. Also, Powerstore has moved to more modern premises in Timaru, Alectra has substantially upgraded its building supplies premises in Rangiora and LV Martin purchased appliance retailer Star Appliances in Rotorua.

In December Smiths City relocated to larger premises in Queenstown and Powerstore completed the purchase of Dunedin appliance retailer, Selectrix, enabling it to move to superior premises and capture a significant customer base. In February the company will open in Gisborne. Trading as Smiths City this will be a valuable addition to our eastern North Island customer offering.

In addition the company will introduce, in 2007, a superior point of sale system to improve customer service, staff productivity and financial reporting across the Group. It will also actively pursue profit opportunities through both finance and properties as they arise.



C D BOYCE Chairman



R HELLINGS Managing Director

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
**INTERIM REPORT & FINANCIAL STATEMENTS**  
**31 OCTOBER 2006**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR HALF YEAR ENDED 31 OCTOBER 2006**

	UNAUDITED CURRENT HALF YEAR YEAR (000S)	UNAUDITED PRIOR HALF YEAR YEAR (000S)	AUDITED FULL YEAR 30.4.06 (000S)
<b>OPERATING REVENUE</b>			
Total Operating Revenue	135,293	116,320	243,039
<b>TRADING PROFIT</b>	2,120	2,423	5,209
<b>PROFIT FROM OPERATIONS</b>	2,120	2,473	5,209
Plus (Less) Tax on Operating Profit	0	(107)	383
Net Surplus For The Period	2,120	2,316	5,592
Net Surplus Attributable to Minority Interests	(71)	(44)	(156)
<b>OPERATING PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY</b>	2,049	2,272	5,436

**STATEMENT OF MOVEMENTS IN EQUITY**  
**FOR HALF YEAR ENDED 31 OCTOBER 2006**

	UNAUDITED CURRENT HALF YEAR YEAR (000S)	UNAUDITED PRIOR HALF YEAR YEAR (000S)	AUDITED FULL YEAR 30.4.06 (000S)
Equity at Beginning of Period			
- Parent Interest	40,254	37,470	37,470
- Minority Interest	698	554	554
Add Minority Interest Contribution	0	0	0
Add Net Surplus for the Period			
- Parent Interest	2,049	2,272	5,436
- Minority Interest	71	44	156
Deduct Dividend Paid			
- Parent Interest	(2,118)	(1,857)	(2,652)
- Minority Interest	0	0	(12)
Equity at End of Period	40,954	38,483	40,952
Consists of:			
- Parent Interest	40,185	37,885	40,254
- Minority Interest	769	598	698
	40,954	38,483	40,952

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
**INTERIM REPORT & FINANCIAL STATEMENTS**  
**31 OCTOBER 2006**



**STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY**  
**AS AT 31 OCTOBER 2006**

	UNAUDITED CURRENT HALF YEAR 2006 (000S)	UNAUDITED PRIOR HALF YEAR 2005 (000S)	AUDITED FULL YEAR 2005 (000S)
<b>CURRENT ASSETS</b>			
Cash and Short Term Deposits	90	27	31
Bank Accounts	1,790	3,011	3,897
Accounts Receivable	17,844	14,672	14,052
Property Intended for Resale	0	4,454	0
Inventories	41,718	37,345	40,669
<b>TOTAL CURRENT ASSETS</b>	<b>61,442</b>	<b>59,509</b>	<b>58,649</b>
<b>SMITHCORP ASSETS</b>			
Smithcorp Bank Balances and Deposits	1,975	424	1,081
Smithcorp Receivables – Current Portion	60,697	54,489	50,220
Smithcorp Receivables – Term Portion	31,886	27,824	41,484
<b>TOTAL SMITHCORP ASSETS</b>	<b>94,558</b>	<b>82,737</b>	<b>92,785</b>
<b>OTHER ASSETS</b>			
Investments	262	120	284
Intangible Assets	1,790	915	1,737
Property, Plant and Equipment	25,690	23,551	24,496
<b>TOTAL OTHER ASSETS</b>	<b>27,742</b>	<b>24,586</b>	<b>26,517</b>
<b>TOTAL ASSETS</b>	<b>183,742</b>	<b>166,832</b>	<b>177,951</b>
<b>CURRENT LIABILITIES</b>			
Accounts Payable	25,463	21,081	26,262
Bank Overdraft	4,639	5,488	0
Provisions	9,453	8,190	8,543
<b>TOTAL CURRENT LIABILITIES</b>	<b>39,555</b>	<b>34,759</b>	<b>34,805</b>
<b>TOTAL SMITHCORP FINANCE LIABILITIES</b>			
Finance Receivable Borrowings	83,008	73,365	81,969
<b>NON CURRENT LIABILITIES</b>			
Secured Borrowings	20,225	20,225	20,225
<b>TOTAL TERM LIABILITIES</b>	<b>20,225</b>	<b>20,225</b>	<b>20,225</b>
<b>TOTAL LIABILITIES</b>	<b>142,788</b>	<b>128,349</b>	<b>136,999</b>
<b>NET ASSETS</b>	<b>40,954</b>	<b>38,483</b>	<b>40,952</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	24,006	21,706	24,075
Minority Interests	769	598	698
<b>TOTAL EQUITY</b>	<b>40,954</b>	<b>38,483</b>	<b>40,952</b>



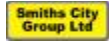
**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
**INTERIM REPORT & FINANCIAL STATEMENTS**  
**31 OCTOBER 2006**

**STATEMENT OF CASHFLOWS**  
**FOR THE HALF YEAR ENDED 31 OCTOBER 2006**

	UNAUDITED CURRENT HALF YEAR (000S)	UNAUDITED PRIOR HALF YEAR (000S)	AUDITED FULL YEAR 30.4.06 (000S)
<b>CASHFLOWS FROM OPERATING ACTIVITIES</b>			
Cash Provided From:			
Receipts From Customers	128,937	110,933	235,646
Interest Received - Smithcorp	2,724	1,314	2,532
Receipt From Sale of Properties	0	3,728	9,128
Tax Refund	0	1,404	655
Interest Received - Other	185	115	265
<b>TOTAL CASH PROVIDED</b>	<b>131,846</b>	<b>117,494</b>	<b>248,226</b>
Cash Applied To:			
Payments To Suppliers and Employees	(128,747)	(110,794)	(227,604)
Purchase Properties Subsequently Sold	0	(4,450)	(4,450)
Interest Paid			
Finance Company	(3,414)	(2,930)	(5,900)
Bank and Other	(1,035)	(913)	(1,943)
Income Taxes Paid	0	0	(50)
<b>TOTAL CASH APPLIED</b>	<b>(133,196)</b>	<b>(119,087)</b>	<b>(239,947)</b>
<b>CASHFLOW FROM (TO) OPERATING ACTIVITIES</b>	<b>(1,350)</b>	<b>(1,593)</b>	<b>8,279</b>
<b>CASHFLOWS FROM INVESTING ACTIVITIES</b>			
Cash Applied To:			
Purchase Property, Plant & Equipment	(2,325)	(949)	(3,599)
Short Term Loan to Another Entity	0	(620)	0
<b>TOTAL CASH APPLIED</b>	<b>(2,325)</b>	<b>(1,569)</b>	<b>(3,599)</b>
<b>NET CASHFLOW TO INVESTING ACTIVITIES</b>	<b>(2,325)</b>	<b>(1,569)</b>	<b>(3,599)</b>
<b>CASHFLOWS FROM FINANCING ACTIVITIES</b>			
Cash Applied To:			
Pay Dividend	(2,118)	(1,857)	(2,664)
<b>TOTAL CASH APPLIED</b>	<b>(2,118)</b>	<b>(1,857)</b>	<b>(2,664)</b>
<b>NET CASHFLOWS TO FINANCING ACTIVITIES</b>	<b>(2,118)</b>	<b>(1,857)</b>	<b>(2,664)</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>(5,793)</b>	<b>(5,019)</b>	<b>2,016</b>
Cash and Bank at Beginning of Period	5,009	2,993	2,993
Cash and Bank at End of Period	(784)	(2,026)	5,009



**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES**  
**INTERIM REPORT & FINANCIAL STATEMENTS**  
**31 OCTOBER 2006**



**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 2006. The accounting policies used are consistent with those used in previously published Interim Financial Statements and the previous Annual Report dated 30 April 2006.

**2. Interest Revenue and Interest Expense**

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

	UNAUDITED CURRENT HALF YEAR 30.4.06 (000S)	UNAUDITED PRIOR HALF YEAR (000S)	AUDITED FULL YEAR 30.4.06 (000S)
- Interest Revenue	2,909	1,429	2,796
- Interest Expense	(4,550)	(3,843)	(8,077)

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

Net Surplus Per Statement of Financial Performance

	2,120	2,316	5,592
- Add (deduct) associate profit (loss)	22	0	(164)
- Add Depreciation	1,078	886	1,773
- Adjusted Net Surplus	3,220	3,202	7,201

Add/(Deduct) Movements in Working Capital

(Increase)/Decrease in Smithcorp Receivables	(879)	3,806	(5,585)
Increase/(Decrease) in Smithcorp Borrowings	1,039	(5,253)	3,352
(Increase)/Decrease in Receivables	(3,792)	(3,671)	778
(Increase)/Decrease in Inventories	(1,049)	(1,768)	(5,092)
Increase/(Decrease) in Current Liabilities	111	2,091	7,625
Movements in Working Capital	(4,570)	(4,795)	1,078
Net Cashflow From Operating Activities	(1,350)	(1,593)	8,279

**4. Commitments and Contingent Liabilities**

The Group had entered into a commitment, subject to due diligence, to purchase property in Gore for \$855,000 (2005 \$Nil). The parent company has guaranteed \$400,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand (2005 \$400,000). The Group has contingent liabilities of \$Nil (2005 \$Nil).

**5. Event After Balance Date**

The company completed the purchase of property in Gore for \$855,000 on 21<sup>st</sup> December 2006.

**NOTES TO THE FINANCIAL STATEMENTS (continued)****6. Implementation of International Financial Reporting Standards**

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 period 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 has set up a project team whose role it is to:

1. Assess the key differences in accounting policies under NZIFRS and current accounting policies;
2. Determine the impacts on the financial statements from transition, and
3. 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 to financial statements resulting from adopting NZIFRS standards 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.

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

*Hedge Accounting*

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

Under NZIFRS 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.

