SMITHS CITY GROUP LIMITED

HALF YEAR REPORT

31 OCTOBER 2007

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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
BANKERS	The National Bank of New Zealand P O Box 454 Christchurch
AUDITORS	KPMG P O Box 274 Christchurch
SHARE REGISTRARS	Link Market Services P O Box 384 Ashburton

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SUMMARY OF FINANCIAL PERFORMANCE

On 21 December the Directors announced an operating surplus after taxation of $1.759million compared with $1.737million last year – an increase of 1.3%.

Sales revenues for the period increased from $132.5million to $133.2million. Same stores sales revenue is in line with previous years.

The financial statements have been prepared under New Zealand International Financial Reporting Standards (NZIFRS) for the first time. The change to NZIFRS reporting has resulted in prior year comparatives being restated. However, the net affect on reported profit when compared with reporting under the previous standards is immaterial. Along with the adoption of NZIFRS the Board has decided to change its reporting in that all supplier product rebates are now included in the total cost of goods sold rather than taken to revenue as in previous years.

DIVIDEND

The Directors have declared an unimputed interim dividend of 1.5cents per share (last year 1.5cents unimputed) to be paid on 15 February 2008. For the purposes of the dividend the share register will close at 5.00pm on Friday 8 February 2008 and reopen at 9.00am Monday 11 February 2008.

REVIEW OF OPERATIONS

Retail trading conditions over the last year have been challenging. The combined effect of Government and Reserve Bank policies has led to reducing demand and increasing costs. In short, consumer confidence is in decline and household budgets are under real pressure as the costs of staple products – food, petrol, electricity – and interest rates increase. Over the last year we have seen increased promotions and offers in the market place as the larger retailers, in particular, continue to protect their market shares.

Smiths City is a fully integrated retail, finance and property company. Whilst retailing is the backbone of all three operations, the company seeks to maximise its returns across the Group through taking advantage of opportunities as they arise.

In retail we continued to respond to the competitive conditions by matching offers in the market place, to ensure that we maintained market share across all product categories. Smiths City and Powerstore have performed well in those trading conditions although the L V Martin business has experienced erosion of margins and profitability as a result of increased competition in the Wellington market.

Finance is a key part of our customer offering and Smithcorp Finance Limited continues to contribute positively to our result. The ability to communicate directly with our customers gives us a key long term competitive edge even though – for the short term – the prevalence of interest free style offers and higher interest rates on borrowed money has adversely impacted profitability.

Property also contributed positively to our result – the purchase, development and sale of our new store in Gore, which was completed in the first quarter of the financial year and yielded a profit of $549,000 is a clear example of how we can successfully identify and develop store locations. We have negotiated funding lines to enable us to take advantage of similar opportunities and in December we completed the purchase of our store in Gisborne.

STRATEGIC POSITION

Retailing is the back bone of our business from which opportunities in finance and property arise. In retail two of the most important success factors are buying and promotion. A key ingredient when buying is that the bigger you are the better you can buy. Smiths City is a major retailer in the South Island furnishings, appliance and sports markets. In furnishings and sports the company's size relative to its competition gives it a competitive advantage particularly in its ability to import products directly. However in appliances by Australasian, and even national standards, the Group is a reasonably small player.

Having given due consideration to the relative sizes of our individual business units the Board has made three key strategic decisions in the last six months:

» To join the buying group Narta New Zealand Limited – a subsidiary of Narta International Pty Limited (NARTA), the largest appliance buying group in Australia. This is a key move for us, having been "on our own" for so long. However, NARTA's appliance turnover in Australia is approximately $2.6billion and being involved in a group like this will improve our ability to compete aggressively in the New Zealand appliance market for the long term;

» To acquire the 20% minority shareholding in L V Martin thus giving the company additional flexibility to maximise the benefits of its combined appliance business; and

» To exit the wholesale Building Supplies business which was not large enough to compete with nationwide companies.

OUTLOOK

Trading conditions continue to be competitive with November and December sales, on a same stores basis, flat with last year. Short term profitability will remain under pressure given the unpredictability of the economy. However, we will continue to concentrate on those core competencies that will lead to increased customer satisfaction and loyalty to achieve long term benefits for the company and its shareholders.

Dated 21 January 2008

C D BOYCE	J A DOBSON
CHAIRMAN	DEPUTY CHAIRMAN

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE HALF YEAR ENDED 31 OCTOBER 2007

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	UNAUDITED FULL YEAR 30.4.07 ($000)
Sales	133,153	132,451	270,635
Cost of goods sold	(97,997)	(97,739)	(200,899)
Gross profit	35,156	34,712	69,736
Interest revenue	2,776	2,909	4,326
Deduct Expenses:			
Employee benefits	(17,161)	(17,654)	(35,173)
Rental expense	(6,484)	(5,725)	(12,140)
Depreciation	(1,117)	(1,078)	(2,115)
Amortisation	(24)	(2)	(60)
Other costs	(6,406)	(6,904)	(11,489)
Profit before finance costs and tax	6,740	6,258	13,085
Finance costs	(4,981)	(4,450)	(9,403)
Profit before tax	1,759	1,808	3,682
Taxation	-	-	-
Profit for the period	1,759	1,808	3,682
Profit attributable to minority interests	-	(71)	(58)
Profit attributable to members of the company	1,759	1,737	3,624
Earnings Per Share	3.3cents	3.2cents	6.8cents

The Group has a 30% shareholding in Adventure Brands Limited. Its profit (loss) result of $41 (30 April 2007 $94; 31 October 2006 ($22)) is equity accounted in the above results.

UNAUDITED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY FOR THE HALF YEAR ENDED 31 OCTOBER 2007

	SHARE CAPITAL ($000)	REVALUATION RESERVES ($000)	OTHER RESERVES ($000)	RETAINED EARNINGS ($000)	MINORITY INTERESTS ($000)	TOTAL EQUITY ($000)
BALANCE 1 MAY 2006	10,652	5,433	291	25,370	698	42,444
Net surplus attributable to members for period	-	-	-	1,737	-	1,737
Net surplus attributable to minority interests for period	-	-	-	-	71	71
Fair value gain (loss) taken to cash hedge reserve	-	-	(259)	-	-	(259)
Dividends paid	-	-	-	(2,118)	-	(2,118)
BALANCE 31 OCTOBER 2006	10,652	5,433	32	24,989	769	41,875
Net surplus attributable to members for period	-	-	-	1,887	-	1,887
Net surplus attributable to minority interests for period	-	-	-	-	(12)	(12)
Fair value gain (loss) taken to cash hedge reserve	-	-	(726)	-	-	(726)
Revaluation of property	-	3,538	-	-	-	3,538
Dividends paid	-	-	-	(794)	-	(794)
BALANCE 30 APRIL 2007	10,652	8,971	(694)	26,082	757	45,768
Net surplus attributable to members for period	-	-	-	1,759	-	1,759
Purchase of minority interests	-	-	-	-	(757)	(757)
Fair value gain (loss) taken to cash hedge reserve	-	-	483	-	-	483
Dividends paid	-	-	-	(2,118)	-	(2,118)
BALANCE 31 OCTOBER 2007	10,652	8,971	(211)	25,723	-	45,135

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE HALF YEAR ENDED 31 OCTOBER 2007

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	UNAUDITED FULL YEAR 30.4.07 ($000)
CURRENT ASSETS			
Cash	108	90	101
Bank	3,220	3,765	4,150
Receivables	13,731	17,229	14,664
Property intended for resale	-	-	1,183
Inventories	39,235	39,561	39,922
TOTAL CURRENT ASSETS	56,294	60,645	60,020
SMITHCORP FINANCE RECEIVABLES			
Current portion	50,423	59,682	49,562
Term portion	42,822	31,199	42,412
	93,245	90,881	91,974
OTHER ASSETS			
Deferred taxation	3,793	3,793	3,793
Investments	1,603	1,053	1,550
Intangible assets	3,431	2,051	2,616
Property, plant and equipment	27,155	24,638	27,649
TOTAL OTHER ASSETS	35,982	31,535	35,608
TOTAL ASSETS	185,521	183,061	187,602
CURRENT LIABILITIES			
Bank overdraft	7,764	4,639	6,247
Short term loan on property intended for resale	-	-	1,183
Accounts payable	20,436	25,525	24,180
Provisions	5,859	7,789	6,031
TOTAL CURRENT LIABILITIES	34,059	37,953	37,641
SMITHCORP FINANCE BORROWINGS	85,356	83,008	83,968
NON CURRENT LIABILITIES			
Secured borrowings	20,971	20,225	20,225
TOTAL LIABILITIES	140,386	141,186	141,834
NET ASSETS	45,135	41,875	45,768
SHAREHOLDERS' FUNDS			
Share capital reserves	10,652	10,652	10,652
Revaluation reserve	8,971	5,433	8,971
Other reserves	(211)	32	(694)
Retained earnings	25,723	24,989	26,082
	45,135	41,106	45,011
Minority interests	-	769	757
TOTAL EQUITY	45,135	41,875	45,768
Net Tangible Assets Per Share	78.8cents	73.7cents	80.0cents
Total Current Assets	106,717	120,327	109,582
Total Current Liabilities	34,059	37,953	37,641

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 OCTOBER 2007

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	UNAUDITED FULL YEAR 30.4.07 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts from customers	134,203	128,819	269,416
Receipts from sale of properties	2,610	-	-
Interest received – Smithcorp	2,647	2,724	3,927
Interest received – Other	129	185	399
Total cash flows from operating activities	139,589	131,728	273,742
CASH WAS APPLIED TO:			
Payments to suppliers and employees	(131,373)	(128,630)	(265,295)
Purchase properties subsequently sold	(2,096)	-	(1,183)
Interest paid – Smithcorp	(3,831)	(3,414)	(6,919)
Interest paid – Other	(1,150)	(1,035)	(2,221)
Total cash flows applied to operating activities	(138,450)	(133,079)	(275,618)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	1,139	(1,351)	(1,876)
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS APPLIED TO:			
Purchase minority interests and investments	(769)	-	-
Purchase property, plant and intangibles	(1,438)	(2,325)	(3,400)
Total cash flows applied to investing activities	(2,207)	(2,325)	(3,400)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	(2,207)	(2,325)	(3,400)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipt of loan	746	-	1,183
Total cash flows from financing activities	746	-	1,183
CASH WAS APPLIED TO:			
Pay dividend	(2,118)	(2,118)	(2,912)
Total cash flows applied to financing activities	(2,118)	(2,118)	(2,912)
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES	(1,372)	(2,118)	(1,729)
Net (decrease) in cash held	(2,440)	(5,794)	(7,005)
Cash at beginning of the period	(1,996)	5,009	5,009
Cash at end of period	(4,436)	(785)	(1,996)

RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES

Profit per accounts before earnings from associate	1,759	1,808	3,682
Plus (minus) share of earnings (losses) from associate	(41)	22	(94)
Less revaluation of investment properties	-	-	(380)
Add depreciation	1,117	1,078	2,115
	2,835	2,908	5,323
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
(Deduct increase) Smithcorp receivables	(1,271)	(706)	(1,798)
Add increase Smithcorp borrowings	1,388	1,039	1,999
Add decrease(deduct increase) receivables	933	(3,703)	(1,138)
Add decrease (deduct increase) property intended for sale	-	-	(1,183)
Add decrease (deduct increase) inventories	687	(629)	(990)
(Deduct increase) accounts payable and provisions	(3,433)	(260)	(4,089)
Movements in working capital	(1,696)	(4,259)	(7,199)
Net cash inflow/(outflow) from operating activities	1,139	(1,351)	(1,876)

NOTES TO THE FINANCIAL STATEMENTS

1) REPORTING ENTITY

Smiths City Group Limited ("the Company") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX"). The company is an issuer in terms of the Financial Reporting Act 1993.

Financial statements for the Company (separate financial statements) and consolidated financial statements are presented. The consolidated financial statements of Smiths City Group Limited as at and for the 6 months ended 31 October 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

Smiths City Group Limited is primarily involved in the retailing of consumer electronics products, kitchen appliances, home heating solutions, home furnishings and sporting goods.

2) BASIS OF PREPARATION

a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with New Zealand equivalents to International Financial Reporting Standards ("NZIFRS") and other applicable Financial Reporting Standards, as appropriate, of profit oriented entities. Compliance with NZIFRS ensures that the financial statements also comply with International Financial Reporting Standards ("IFRS"). These are the Group's first interim financial statements prepared in accordance with NZIAS-34 Interim Financial Reporting. The consolidated Interim Financial Statements do not include all the information required for full financial statements.

This is the first financial report based on NZIFRS and comparatives for the year ended 30 April 2007 and 6 months ended 31 October 2006 have been restated accordingly. Reconciliations of NZIFRS Equity and Profit for the year ended 30 April 2007 and 31 October 2006 to balances reported in the 30 April 2007, 31 October 2006 financial reports and at transition date 1 May 2006 are detailed in Note 8.

b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for the following:

i) Derivative financial instruments are measured at fair value.
ii) Finance Receivables are initially measured at fair value. The subsequent measurement of Finance Receivables is at amortised cost using the effective interest method.
iii) Available for sale financial assets are measured at fair value.
iv) Investment property is measured at fair value.

The methods used to measure fair values are discussed further in Note 3.

c) Functional and Presentation Currency

The financial statements are presented in New Zealand dollars ($) which is the Company's functional currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

d) Use of Estimates and Judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

- The Directors determine the fair value of finance receivables taking into account anticipated future income for all finance receivables made on deferred interest terms whilst also estimating the cost of instalment credit receivables made on deferred interest terms. Instalment credit receivables expected to have a non interest bearing period are discounted to their net present value using an appropriate market discount rate. This discount rate is continually reviewed by the Directors.
- One years budgeted profits are recognised in the calculation of deferred taxation on the basis it is probable that future taxable profits will be available against which they can be utilised.
- The Directors determine whether indefinite life intangibles are impaired on at least an annual basis. This requires estimation of the recoverable amount of the cash generating unit to which the indefinite life intangible assets are allocated.
- Each investment property is valued at fair value on an annual basis by a registered independent valuer calculated using the capitalisation method of valuation against current rental value, having regard to age and condition, recent market sales data and any specific circumstances of the property.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

e) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

3) TRANSITION TO IFRS

The Group's interim financial statements for the 6 months ended 31 October 2007 are the first financial statements that are prepared under NZIFRS, specifically NZIAS 34 Interim Financial Reporting and NZIFRS 1 First Time Adoption of New Zealand equivalents to International Financial Reporting Standards. These financial statements have been prepared as described in Note 1. The group has applied NZIFRS 1 in preparing these consolidated financial statements.

Smiths City Group's transition date is 1 May 2006. The Group prepared its opening balance sheet as at that date. The reporting date of these interim financial statements is 31 October 2007. The Group's NZIFRS adoption date is 1 May 2007.

In preparing these interim financial statements in accordance with NZIFRS 1, The Group has elected not to apply NZIFRS 3: Business Combinations to business combinations that occurred before 1 May 2006.

The reconciliations in Note 8 provide a quantification of the effect of the transition to NZIFRS. The five reconciliations provide details of the impact on transition on:

- Equity at 1 May 2006 – Opening Position
- Equity at 31 October 2006
- Equity at 30 April 2007
- Profit for the 6 months ended 31 October 2006
- Profit for the 12 months ended 30 April 2007

There are no material differences between the cash flow statement presented under NZIFRS and the cash flow statement prepared under the previous NZGAAP.

4) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

Certain comparative amounts have been reclassified to conform with the current period presentation (see Note 8).

a) Basis of Consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Associates (Equity Accounted Investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees).

iii) Transactions Eliminated on Consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

b) Foreign Currency

i) Foreign Currency Transactions

Transactions in foreign currencies are converted to NZD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date.

c) Impairment

The carrying amounts of the Group's property plant and equipment, equity accounted associates, financial instruments and investment property assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

For trade receivables which are not significant on an individual basis, collective impairment is assessed on a portfolio basis based on numbers of days overdue and taking into account the historical loss experience in portfolios with a similar amount of days overdue.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

d) Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

i) Non Derivative Financial Instruments

Non-derivative financial instruments comprise investments in finance receivables, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Finance Receivables
Finance receivables are initially recognised at fair value.

Subsequent to initial recognition, finance receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Trade and Other Receivables
Trade and other receivables are recognised at fair value less impairment losses.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Loans and Borrowings
Loans and borrowings are initially recognised at fair value net of transaction costs incurred. Loans and borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Trade and Other Payables
Trade and other payables are stated at cost.

ii) Derivative Financial Instruments
The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively.

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and are recognised initially at fair value. Any gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

e) Property, Plant and Equipment
i) Recognition and Measurement
Land and Buildings are shown at fair value based on periodic, but at least at triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ii) Subsequent Costs
The costs of the day to day servicing of property, plant and equipment is recognised in profit or loss as incurred.

iii) Depreciation
Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The depreciation method for the current and comparative periods are as follows:

» Buildings	1% straight line
» Plant and machinery	10% straight line
» Fixtures and fittings	20% straight line
» Motor vehicles, office and computer equipment	20% straight line

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

f) Intangible Assets

i) Indefinite Life Intangible Assets
Indefinite Life Intangible Assets comprising purchased brands and trade names are measured at fair value.

Following initial recognition indefinite life intangible assets are measured at cost less any accumulated impairment losses.

Indefinite life intangible assets are not amortised. Indefinite life intangible assets are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the indefinite life intangible asset relates.

Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

ii) Definite Life Intangible Assets
Definite Life Intangible Assets comprising acquired customer databases and computer software licenses are capitalised on the basis of the costs incurred to acquire the customer database and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (not exceeding 20 years).

Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives (not exceeding five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Other intangible assets are tested for impairment where an indicator of impairments exists, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

g) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at fair value with any change therein recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

h) Leased Assets

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payment made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the term of the lease.

i) Inventories

Inventories are measured at the lower of cost and net realisable value and are recorded net of all volume rebates and settlement discounts. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and condition being the acquisition cost, freight, duty and other inward charges. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

j) Employee Benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

l) Revenue

i) Goods Sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

ii) Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group.

iii) Royalty Income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

m) Finance Income

Finance income comprises income on finance receivables, interest income on funds invested, dividend income, gains on the disposal of available for sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in profit or loss.

Income on Finance Receivables

Income on finance receivables is recognised on an actuarial basis (effective interest method) calculated on the net amount outstanding.

Yield related fees for finance receivables are accrued to income over the term of the loan on an actuarial basis.

Fees charged to customer accounts in arrears are recognised as income at the time the fees are charged.

Interest Income on Funds Invested

Interest income is recognised on a time proportionate basis using the effective interest method, which takes into account the effective yield on the financial asset.

n) Finance Expenses

Finance expenses comprise interest expense on borrowings, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available for sale financial assets, and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method.

o) Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised

p) Changes in Accounting Policies

The accounting policies have been provided in full as this is the first opportunity to disclose policies adopted by the Group under NZIFRS.

5) SEGMENT INFORMATION

a) Description of Segments

Business segments – the Group is organised into the following segments by product and service type:

- » Retail including the financing of retail sales
- » Property

b) Primary Reporting Format – Business Segments

	RETAIL ($000)	PROPERTY ($000)	TOTAL ($000)
For the half year ended 31.10.07			
Retail Sales	133,153	-	
Segment Result	1,009	750	1,759
For the half year ended 31.10.06			
Retail Sales	132,451	-	
Segment Result	1,478	259	1,737
For the full year ended 30.4.07			
Retail Sales	270,635	-	
Segment Result	2,787	837	3,624

6) COMMITMENTS AND CONTINGENT LIABILITIES

The Group had entered into a commitment, subject to due diligence, to purchase property in Gisborne for $2.3million (30 April 2007 $913,000 and 31 October 2006 $855,000). The parent company has guaranteed $400,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand (30 April 2007 and 31 October 2006 $400,000). The Group has contingent liabilities of $Nil (30 April 2007 and 31 October 2006 $Nil).

7) EVENT AFTER BALANCE DATE

The company completed the purchase of property in Gisborne for $2.3million on 12 December 2007.

8) EXPLANATION OF TRANSITION TO NEW ZEALAND EQUIVALENTS TO IFRS

RECONCILIATION OF EQUITY AT 1 MAY 2006 – DATE OF TRANSITION TO NZIFRS

	Notes Page 21	Previous NZGAAP 30.4.06 ($000)	Effect of Transition To NZIFRS ($000)	NZIFRS 1.5.06 ($000)
CURRENT ASSETS				
Cash		31	-	31
Bank		9,180	-	9,180
Receivables	b, c, d(i)	14,052	(526)	13,526
Inventories	e	40,669	(1,737)	38,932
TOTAL CURRENT ASSETS		63,932	(2,263)	61,669
SMITHCORP FINANCE RECEIVABLES	c, d(ii)	91,704	(1,529)	90,175
OTHER ASSETS				
Deferred tax	f	-	3,793	3,793
Investments		1,075	-	1,075
Intangible assets	g	1,737	133	1,870
Property, plant and equipment	g	23,705	(133)	23,572
TOTAL OTHER ASSETS		26,517	3,793	30,310
TOTAL ASSETS		182,153	1	182,154
CURRENT LIABILITIES				
Bank overdraft		4,202	-	4,202
Accounts payable	b	26,262	-	26,262
Provisions	d(ii)	8,543	(1,491)	7,052
TOTAL CURRENT LIABILITIES		39,007	(1,491)	37,516
SMITHCORP FINANCE BORROWINGS		81,969	-	81,969
NON CURRENT LIABILITIES				
Secured borrowings		20,225	-	20,225
TOTAL LIABILITIES		141,201	(1,491)	139,710
NET ASSETS		40,952	1,492	42,444
SHAREHOLDERS' FUNDS				
Share capital reserves		10,652	-	10,652
Revaluation reserve		5,433	-	5,433
Other reserves		94	-	94
Cash flow hedge reserve	b	-	197	197
Retained earnings		24,075	1,295	25,370
		40,254	1,492	41,746
Minority interests		698	-	698
TOTAL EQUITY		40,952	1,492	42,444

RECONCILIATION OF EQUITY AT 31 OCTOBER 2006 – THE END OF THE LAST INTERIM REPORTING PERIOD UNDER NZGAAP

	Notes Page 21	Previous NZGAAP 31.10.06 ($000)	Effect of Transition To NZIFRS ($000)	NZIFRS 31.10.06 ($000)
CURRENT ASSETS				
Cash		90	-	90
Bank		3,765	-	3,765
Receivables	b, c, d(i)	17,844	(615)	17,229
Inventories	e	41,718	(2,157)	39,561
TOTAL CURRENT ASSETS		63,417	(2,772)	60,645
SMITHCORP FINANCE RECEIVABLES	c, d(ii)	92,583	(1,702)	90,881
OTHER ASSETS				
Deferred tax	f	-	3,793	3,793
Investments		1,053	-	1,053
Intangible assets	g	1,790	261	2,051
Property, plant and equipment	g	24,899	(261)	24,638
TOTAL OTHER ASSETS		27,742	3,793	31,535
TOTAL ASSETS		183,742	(681)	183,061
CURRENT LIABILITIES				
Bank overdraft		4,639	-	4,639
Accounts payable	b	25,463	62	25,525
Provisions	d(ii)	9,453	(1,664)	7,789
TOTAL CURRENT LIABILITIES		39,555	(1,602)	37,953
SMITHCORP FINANCE BORROWINGS		83,008	-	83,008
NON CURRENT LIABILITIES				
Secured borrowings		20,225	-	20,225
TOTAL LIABILITIES		142,788	(1,602)	141,186
NET ASSETS		40,954	921	41,875
SHAREHOLDERS' FUNDS				
Share capital reserves		10,652	-	10,652
Revaluation reserve		5,433	-	5,433
Other reserves		94	-	94
Cash flow hedge reserve	b	-	(62)	(62)
Retained earnings		24,006	983	24,989
		40,185	921	41,106
Minority interests		769	-	769
TOTAL EQUITY		40,954	921	41,875

RECONCILIATION OF EQUITY AT 30 APRIL 2007 – THE END OF THE LAST REPORTING PERIOD UNDER NZGAAP

	Notes Page 21	Previous NZGAAP 30.4.07 ($000)	Effect of Transition To NZIFRS ($000)	NZIFRS 30.4.07 ($000)
CURRENT ASSETS				
Cash		101	-	101
Bank		4,150	-	4,150
Receivables	b, c, d(i)	15,364	(700)	14,664
Property intended for sale		1,183	-	1,183
Inventories	e	42,043	(2,121)	39,922
TOTAL CURRENT ASSETS		62,841	(2,821)	60,020
SMITHCORP FINANCE RECEIVABLES	c, d(ii)	93,524	(1,550)	91,974
OTHER ASSETS				
Deferred tax	f	-	3,793	3,793
Investments		1,550	-	1,550
Intangible assets	g	1,717	899	2,616
Property, plant and equipment	g	28,548	(899)	27,649
TOTAL OTHER ASSETS		31,815	3,793	35,608
TOTAL ASSETS		188,180	(578)	187,602
CURRENT LIABILITIES				
Bank overdraft		6,247	-	6,247
Short term loan on property intended for sale		1,183	-	1,183
Accounts payable	b	23,392	788	24,180
Provisions	d(ii)	7,386	(1,355)	6,031
TOTAL CURRENT LIABILITIES		38,208	(567)	37,641
SMITHCORP FINANCE BORROWINGS		83,968	-	83,968
NON CURRENT LIABILITIES				
Secured borrowings		20,225	-	20,225
TOTAL LIABILITIES		142,401	567	141,834
NET ASSETS		45,779	(11)	45,768
SHAREHOLDERS' FUNDS				
Share capital reserves		10,652	-	10,652
Revaluation reserve		8,971	-	8,971
Other reserves		94	-	94
Cash flow hedge reserve	b	-	(788)	(788)
Retained earnings		25,305	777	26,082
		45,022	(11)	45,011
Minority interests		757	-	757
TOTAL EQUITY		45,779	(11)	45,768

RECONCILIATION OF PROFIT UNDER PREVIOUS NZGAAP TO PROFITS REPORTED NEW ZEALAND EQUIVALENTS TO IFRS FOR THE HALF YEAR ENDED 31 OCTOBER 2006 – THE END OF THE LAST INTERIM REPORTING PERIOD UNDER NZGAAP

	Notes Page 21	Previous NZGAAP 30.10.06 ($000)	Effect of Transition To NZIFRS ($000)	NZIFRS 31.10.06 ($000)
Sales	a, d(i)	132,569	(118)	132,451
Cost of goods sold	d(i), e	(97,414)	96	(97,318)
Gross profit		35,155	(23)	35,133
Interest revenue		2,909	-	2,909
Deduct Expenses:				
Employee benefits		(17,654)	-	(17,654)
Rental expense		(5,725)	-	(5,725)
Depreciation		(1,078)	-	(1,078)
Amortisation		(2)	-	(2)
Other costs	c	(7,036)	131	(6,905)
Profit before finance costs and tax		6,569	108	6,678
Finance costs		(4,449)	-	(4,449)
Profit before tax		2,120	108	2,229
Taxation	f	-	-	-
Profit for the period		2,120	108	2,229
Profit attributable to minority interests		(71)	-	(71)
Profit attributable to members of the company		2,049	108	2,158

RECONCILIATION OF PROFIT UNDER PREVIOUS NZGAAP TO PROFITS REPORTED NEW ZEALAND EQUIVALENTS TO IFRS FOR THE YEAR ENDED 30 APRIL 2007 – THE END OF THE LAST FULL YEAR REPORTING PERIOD UNDER NZGAAP

	Notes Page 21	Previous NZGAAP 30.4.07 ($000)	Effect of Transition To NZIFRS ($000)	NZIFRS 30.4.07 ($000)
Sales	a, d(i)	270,492	143	270,635
Cost of goods sold	d(i), e	(200,443)	72	(200,515)
Gross profit		70,049	71	70,120
Interest revenue		4,326	-	4,326
Deduct Expenses:				
Employee benefits		(35,171)	-	(35,171)
Rental expense		(12,140)	-	(12,140)
Depreciation		(2,115)	-	(2,115)
Amortisation		(62)	-	(62)
Other costs	c	(11,284)	(205)	(11,489)
Profit before finance costs and tax		13,603	(134)	13,469
Finance costs		(9,403)	-	(9,403)
Profit before tax		4,200	(134)	4,066
Taxation	f	-	-	-
Profit for the period		4,200	(134)	4,066
Profit attributable to minority interests		(58)	-	(58)
Profit attributable to members of the company		4,142	(134)	4,008

NZIFRS ADJUSTMENTS

a) Reclassification Of Income And Expenses
Certain income and expenses have been reclassified in accordance with the income statement disclosure requirements under NZIFRS.

b) Derivative Financial Instruments
In accordance with NZIAS 39 all derivatives have been recognised at fair value on the balance sheet.

c) Loan Loss Provisioning
In accordance with NZIAS 39 significant loans are individually assessed for impairment and smaller loans impairment tested on a portfolio basis using objective evidence.

d) Revenue
i) In accordance with NZIAS 18 revenue is recognised when the significant risks and rewards of ownership have passed to the buyer.

ii) In accordance with NZIAS financial service fees are treated as an integral part of the effective interest rate.

e) Closing Inventory
In accordance with NZIAS 2 closing inventory has been valued inclusive of all purchasing driven rebates.

f) Deferred Tax
A deferred tax asset has been recognised on employee benefits and tax losses to the extent that future taxable profits will be available against which the asset can be recognised.

g) Intangible Assets
Software assets are classified as intangibles to comply with NZIAS 38.

h) The cumulative effect on retained earnings of the above changes is as follows:

	Notes (above)	1.5.06	31.10.06	30.4.07
Retained profits under previous NZGAAP		24,075	24,006	25,305
Loan loss provisioning	c	(199)	(67)	(247)
Revenue	d(i), (ii)	(562)	(586)	(648)
Deferred tax	f	3,793	3,793	3,793
Sub-total for IFRS adjustments		27,107	27,146	28,203
Inventory valuation adjustment	e	(1,737)	(2,157)	(2,121)
		25,370	24,989	26,082

i) The effect on profit of the above changes is as follows:

	Notes	31.10.06	30.4.07
Profits under previous NZGAAP		2,120	4,200
Loan loss provisioning	c	(24)	(48)
Revenue	d(i), (ii)	133	(86)
Deferred tax	f	-	-
		2,229	4,066
Minority interests		(71)	(58)
Sub-total for IFRS adjustments after tax and minority interests		2,158	4,008
Inventory valuation adjustment	e	(421)	(384)
		1,737	3,624