

SMITHS CITY GROUP LIMITED

HALF YEAR REPORT

31 OCTOBER 2009

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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

BANKERS ANZ National Bank of New Zealand
P O Box 220
Christchurch

AUDITORS KPMG
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P O Box 1739
Christchurch

SHARE REGISTRARS Link Market Services
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Smiths City Group Limited (the Group) is the Christchurch based holding company for a group of businesses with operating revenues in excess of \$220million, employing over 750 staff and with approximately 2,350 shareholders. The Group's shares are listed on the New Zealand Stock Exchange under the stock code SCY.

The Group's activities are concentrated in three areas – retail, finance and property.

RETAIL

The Group trades under a number of well known retail brands, split into two broad segments:

Ü Lifestyle Stores

Trading as Smiths City, the lifestyle stores retail a range of household products including furniture, beds, floorcoverings, appliances, heating and air conditioning, consumer electronics and sports goods. There are 17 stores throughout the South Island and eight in the North Island. The Smiths City stores provide a full service customer experience with a full home delivery and installation service, selling branded goods supported by product specialists in each department. This contrasts with the check out cash and carry style operation used by many discount retailers.

Ü Specialist Appliance Chains

Powerstore and L V Martin & Son are specialist appliances chains, with Powerstore trading through eight stores in the South Island and L V Martin & Son operating through five stores in the Wellington region.

In addition to the lifestyle and specialist appliance retail chains, the Group has four Clearance Centres retailing budget end furniture and appliances, and one store branded as Furniture Concepts which focuses on the upper end of the furniture and accessories market.

The retail chains are supported by the Alectra service operation, which installs and services many of the products sold by the retail chains –

including heating and air conditioning, and kitchen appliances.

FINANCE

Smithcorp Finance provides flexible finance options to customers of the retail divisions, as well as unsecured personal loans to customers with a proven credit history. Ownership of the finance company is seen as a key part of the Group's ongoing strategy and gives us a point of difference to our competition.

PROPERTY

Superior store location and presentation are critical to the success of a retail organisation. The Group recognises this and continues to retain ownership of its flagship Smiths City store in Colombo Street, Christchurch, through Smiths City Properties Limited. The property company also undertakes development projects where opportunities are identified to enhance and add value to a site occupied by a Group store.

THE CUSTOMER EXPERIENCE

In modern day retailing creating customer loyalty to a retail brand is becoming increasingly difficult. The Group continues to build enduring customer loyalty through its commitment to providing a full service retail offering both in store and in the customer's home.

It is committed to providing full training for all its staff and the provision of quality branded product from companies such as Fisher & Paykel, Sleepyhead, Panasonic, Sony and Cavalier Bremworth.

In addition it has its own direct importing program for furniture and is a member of Australasia's largest appliance buying group – NARTA – thus ensuring that its customers get the benefits of the best available buying terms.

As a result of this commitment the Group is confident it provides its customers with a rewarding full service retail experience supported by flexible finance options designed to meet their individual needs.

DIRECTORS' REPORT

SUMMARY OF FINANCIAL PERFORMANCE

On 22 December the Directors announced an operating surplus after taxation for the six months to October 2009 of \$1.018million compared with \$0.820million last year – an increase of 24.2%.

Operating revenues for the six months decreased 6.2% from \$114.2million to \$107.1million. Same store retail sales declined 4.5%.

DIVIDEND

The Directors have declared an interim dividend of 1.0cent per share partially imputed with 0.15cents of imputation credits attached (last year 1.0cent unimputed).

MARKET CONDITIONS

Difficult economic conditions through 2009 have meant that the retail environment has continued to be very tough and in big ticket the worst for 20 years.

Retail statistics issued by the Department of Statistics show the quarterly market size movements in the company's major product categories, when compared with the same period in the previous year, to be:

	FURNISHINGS	APPLIANCES
March 2008	-5.5%	-9.7%
June 2008	-8.9%	-5.8%
September 2008	-17.2%	0.8%
December 2008	-15.9%	5.8%
March 2009	-13.8%	-0.9%
June 2009	-16.4%	4.4%
September 2009	-6.8%	6.5%

Low consumer confidence combined with depressed building markets have resulted in the furnishings market being soft throughout the six months to October.

Growth in the appliance sector has been driven by falling prices and heavy discounting at retail level and margins in that category have been under severe pressure.

Whilst there were signs in the quarter to October that the market was improving this did not flow through into November, which was a difficult month, and December trading was below last year.

RESULTS

Given the decline in the home furnishing sector it is not surprising that sales levels in 2009 were lower than in the same period last year. However, in spite of the fall in sales, based on all the information available, the company has held or increased market share in most markets in which it operates.

Over the last two years management has continued to concentrate on those areas that are critical in difficult trading conditions:

- Ü Be aggressive in the market place to protect market share.
- Ü Reduce costs without adversely impacting efficiency.
- Ü Manage stock, debtors and cash to maximum efficiency.
- Ü Ensure there is a continuing program in place to improve our customer offering – including improving locations and in-store service.
- Ü The continued introduction of innovative finance offerings through Smithcorp Finance.

The Board is very pleased to see the success of this strategy and to report a 46.1% increase in operating profit, an improved stockturn through the period and an improved cash position as at 31 October 2009.

Although the level of profit would not be satisfactory under normal circumstances, the Board feels that the company is riding out this particularly difficult trading cycle satisfactorily.

The Board acknowledges that retail never stands still and the need to keep improving our customer offering is critical to future success.

In the last six months the company has relocated both the Smiths City and Powerstore Timaru operations to larger premises. In Christchurch it has significantly upgraded the Moorhouse Avenue Powerstore site and has also set up a carpet super store at the Smiths City Northwood store.

The L V Martin Rotorua store, which had not been trading profitably, was closed.

GROWTH STRATEGY

The Board has previously referred to the cyclical nature of business and considers that the current cycle has some way to go before we see a return to the retail highs of 2007/2008. Current trading

conditions are likely to be the norm for the foreseeable future and company growth through expansion with new stores is, therefore, a pre-requisite for a return to higher profit levels.

The Wellington market has been identified as the best area for immediate growth for two main reasons. Firstly, there has in the last few years, been a reduction in the number of furniture stores in the region. Secondly, by making use of the logistics already in place in L V Martin's Wellington operations, expansion in the region can be achieved without increasing the Group warehousing and delivery costs.

Accordingly, during December the company opened a new Smiths City store in Porirua, Wellington. The store has traded strongly since opening and offers a good base for a larger presence in the Wellington region. The company is actively seeking other Wellington opportunities for growth and anticipates having a second store trading by the end of this financial year.

FINANCE COMPANY

Ownership of our finance company, Smithcorp Finance, gives the company strategic advantages. Smithcorp is a key part of promotional activity and our customer loyalty program. Whilst the finance sector in general has faced difficulties the company's relationship with both its major financiers – Fisher & Paykel Finance Limited and

ANZ National Bank – continues to be strong.

A key matter when considering any finance company is that of concentration of risk. In the case of Smithcorp Finance it does not raise funds from the general public and, consequently, does not carry this type of refinancing risk. The average balance outstanding is less than \$1,200 per customer account. Close management of all customer accounts, a focus on the lifetime value of a customer and minimisation of concentration of risk all combine to make Smithcorp a low risk finance company.

OUTLOOK

Whilst the company operates in three key sectors – big ticket retail, customer financing and property – retail underpins the whole organisation.

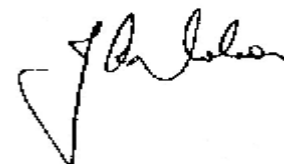
Looking ahead improvements in trading conditions are likely to be gradual but sustainable. Under these circumstances the company should gain the benefit of deferred customer purchasing particularly in the furnishings market.

The company will continue to implement the strategies – including the growth strategy in Wellington – currently in place, to ensure that it continues to ride out this trading cycle satisfactorily.

Dated 18 January 2010



C D BOYCE
CHAIRMAN



J A DOBSON
DEPUTY CHAIRMAN

FINANCIAL INFORMATION

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 OCTOBER 2009

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>AUDITED</u> <u>FULL YEAR</u> <u>30.4.09</u> <u>(\$000)</u>
Sales Revenue	107,147	114,191	227,063
Cost of Goods Sold	(78,447)	(82,372)	(165,880)
Gross Profit	28,700 26.79%	31,819 27.86%	61,183 26.95%
Other Income	69	62	110
Store and Distribution Expenses	(26,708)	(28,120)	(56,074)
Administrative Expenses	(2,661)	(3,202)	(5,361)
Results From Operating Activities	(600)	559	(142)
Group Finance Income	5,441	5,586	11,200
Group Finance Costs	(3,779)	(5,418)	(10,226)
Net Group Finance Income	1,662	168	974
Share of Profit of Equity Accounted Investees	(44)	93	184
Profit Before Tax	1,018	820	1,016
Taxation	-	-	-
Profit for the Period Attributable to Members of the Company	1,018	820	1,016
Earnings Per Share	1.9cents	1.5cents	1.9cents

The Group has a 30% shareholding in Adventure Brands Limited. Its result is equity accounted.

UNAUDITED CONSOLIDATED STATEMENT
OF COMPREHENSIVE INCOME AND EXPENSE
FOR THE HALF YEAR ENDED 31 OCTOBER 2009

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>AUDITED</u> <u>FULL YEAR</u> <u>30.4.09</u> <u>(\$000)</u>
Profit For Period	1,018	820	1,016
Other Comprehensive Income and Expense Recognised Directly in Equity			
Fair Value Gain (Loss) Taken to Cash Hedge Reserve	(1,059)	780	295
Total Comprehensive Income (Loss) For The Period Attributable to Members of the Company	(41)	1,600	1,311

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED BALANCE SHEET
FOR THE HALF YEAR ENDED 31 OCTOBER 2009

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>AUDITED</u> <u>FULL YEAR</u> <u>30.4.09</u> <u>(\$000)</u>
CURRENT ASSETS			
Cash and Cash Equivalents	2,595	1,999	2,102
Trade and Other Receivables	11,046	14,750	11,745
Property Intended For Sale	-	2,520	-
Inventories	34,956	38,282	37,946
TOTAL CURRENT ASSETS (excluding Smithcorp)	48,597	57,551	51,793
SMITHCORP ASSETS			
Smithcorp Cash and Cash Equivalents	686	1,251	2,176
Smithcorp Receivables – Current Portion	54,517	55,751	53,618
Smithcorp Receivables – Term Portion	34,900	38,374	37,341
TOTAL SMITHCORP ASSETS	90,103	95,376	93,135
OTHER ASSETS			
Property Plant and Equipment	24,603	25,729	25,460
Intangible Assets	3,539	3,618	3,458
Investment Properties	1,220	1,225	1,220
Investments in Equity Accounted Investees	636	589	680
Deferred Taxation	3,793	3,793	3,793
TOTAL OTHER ASSETS	33,791	34,954	34,611
TOTAL ASSETS	172,491	187,881	179,539
CURRENT LIABILITIES			
Bank Overdraft	-	1,935	-
Short Term Loan on Property Intended for Sale	-	2,300	-
Secured Borrowings	9,362	12,357	11,618
Trade Payables	22,720	23,255	23,756
Other Payables and Provisions Including Derivatives	597	662	597
TOTAL CURRENT LIABILITIES	32,679	40,509	35,971
SMITHCORP BORROWINGS	80,477	86,413	83,543
NON CURRENT LIABILITIES			
Secured Borrowings	14,375	14,606	14,492
TOTAL LIABILITIES	127,531	141,528	134,006
NET ASSETS	44,960	46,353	45,533
SHAREHOLDERS' FUNDS			
Share Capital Reserves	10,652	10,652	10,652
Revaluation Reserve	8,972	8,972	8,972
Other Reserves	(856)	688	203
Retained Earnings	26,192	26,041	25,706
TOTAL EQUITY	44,960	46,353	45,533

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 OCTOBER 2009

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>AUDITED</u> <u>FULL YEAR</u> <u>30.4.09</u> <u>(\$000)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers	104,400	108,084	227,456
Receipts From Sale Of Properties	-	-	2,520
Interest Received – Smithcorp	3,446	3,370	6,880
Interest Received – Other	59	160	230
Total Cash Flows From Operating Activities	<u>107,905</u>	<u>111,614</u>	<u>237,086</u>
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees	(100,245)	(105,902)	(219,414)
Interest Paid – Smithcorp	(2,896)	(4,101)	(7,838)
Interest Paid – Other	(883)	(1,317)	(2,397)
Total Cash Flows Applied To Operating Activities	<u>(104,024)</u>	<u>(111,320)</u>	<u>(229,649)</u>
NET CASH INFLOW FROM OPERATING ACTIVITIES	3,881	294	7,437
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayments of Advances by Customers	1,542	1,385	4,551
Sale of Property Plant and Equipment	-	-	-
Total Cash Flows From Investing Activities	<u>1,542</u>	<u>1,385</u>	<u>4,551</u>
CASH WAS APPLIED TO:			
Advances to Customers	-	-	-
Purchase of Property, Plant & Intangibles	(449)	(714)	(1,507)
Total Cash Flows Applied to Investing Activities	<u>(449)</u>	<u>(714)</u>	<u>(1,507)</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	1,093	671	3,044
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipt of Advances to Fund Finance Receivables	-	-	-
Receipt of Loan	-	611	-
Total Cash Flows From Financing Activities	<u>-</u>	<u>611</u>	<u>-</u>
CASH WAS APPLIED TO:			
Repayments of Advances to Fund Finance Receivables	(3,066)	(1,751)	(4,620)
Repayments of Loans	(2,373)	-	(2,543)
Pay Dividend	(532)	(1,590)	(2,120)
Total Cash Flows Applied to Financing Activities	<u>(5,971)</u>	<u>(3,341)</u>	<u>(9,283)</u>
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(5,971)	(2,730)	(9,283)
Net Increase (Decrease) in Cash Held	(997)	(1,765)	1,198
Cash at Beginning of Period	4,278	3,080	3,080
Cash at End of Period	<u>3,281</u>	<u>1,315</u>	<u>4,278</u>
<u>RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES</u>			
Profit Per Accounts Before Earnings From Associate	1,018	820	1,016
Plus Realised Foreign Exchange Gains	-	-	891
Less Share of Earnings From Associate	44	(93)	(184)
Less Revaluation Of Investment Properties	-	-	5
Add Depreciation and Amortisation	1,226	1,299	2,521
	<u>2,288</u>	<u>2,026</u>	<u>4,249</u>
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
Add Decrease (Deduct Increase) Receivables	699	(1,956)	393
Add Decrease (Deduct Increase) Property Held For Sale	-	-	2,395
Add Decrease (Deduct Increase) Inventories	2,990	(618)	(282)
Add Increase (Deduct Decrease) Accounts Payable & Provisions	(2,096)	842	682
Movements in Working Capital	<u>1,593</u>	<u>(1,732)</u>	<u>3,188</u>
Net Cash Inflow From Operations	<u>3,881</u>	<u>294</u>	<u>7,437</u>

NOTES TO THE FINANCIAL STATEMENTS

1) GENERAL INFORMATION

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. The consolidated financial statements of Smiths City Group Limited for the six months ended 31 October 2009 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 together with the provision of finance to support the retailing operations. In addition the Group also develops and owns retail property.

2) BASIS OF PREPARATION

a) Summary of Significant Accounting Policies

These general purpose financial statements for the interim six month reporting period ended 31 October 2009 have been prepared in accordance with accounting standard NZIAS 34 Interim Financial Reporting. They do not include all the notes included in the full annual financial statements and are to be read in conjunction with the Annual Report for the year ended 30 April 2009.

b) 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 unless otherwise stated.

c) Changes in Accounting Policies

There have been no changes to accounting policies during the period. Accounting policies have been applied on a basis consistent with the prior interim and annual financial statements.

3) SEGMENT INFORMATION

a) Description of Segments

Segment information is presented in respect of the Group’s business and geographical segments. The primary format, business segments, is based on the Group’s management and internal reporting structure.

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

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

The Group operates only in New Zealand and, therefore, has one geographical segment.

b) Primary Reporting Format – Business Segments

	<u>RETAIL</u>		<u>PROPERTY</u>		<u>ELIMINATION</u>		<u>TOTAL</u>	
	UNAUDITED CURRENT HALF YEAR (\$000)	UNAUDITED PRIOR HALF YEAR (\$000)	UNAUDITED CURRENT HALF YEAR (\$000)	UNAUDITED PRIOR HALF YEAR (\$000)	UNAUDITED CURRENT HALF YEAR (\$000)	UNAUDITED PRIOR HALF YEAR (\$000)	UNAUDITED CURRENT HALF YEAR (\$000)	UNAUDITED PRIOR HALF YEAR (\$000)
External Sales Revenue	107,147	114,191	-	-	-	-	107,147	114,191
Internal Sales Revenue	-	-	774	874	(774)	(874)	-	-
Total Segment Revenue	107,147	114,191	774	874	(774)	(874)	107,147	114,191
Segment Result	800	627	218	193	-	-	1,018	820
Segment Assets	150,934	163,676	21,557	24,205	-	-	172,491	187,881
Capital Expenditure	449	714	-	-	-	-	449	714
Depreciation	1,183	1,256	43	43	-	-	1,226	1,299

**4) STATEMENT OF MOVEMENTS IN EQUITY
FOR THE HALF YEAR ENDED 31 OCTOBER 2009**

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>AUDITED</u> <u>FULL YEAR</u> <u>30.4.09</u> <u>(\$000)</u>
EQUITY AT BEGINNING OF PERIOD	45,533	46,342	46,342
Net Surplus Attributable to Members for Period	1,018	820	1,016
Effective Portion of Changes in Fair Value of Cash Flow Hedges	(1,059)	780	295
Dividends Paid	(532)	(1,589)	(2,120)
EQUITY AT END OF PERIOD	44,960	46,353	45,533

Cash Flow Hedges

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

As a result Other Reserves includes the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

5) THE FOLLOWING ITEMS OF EXPENDITURE ARE INCLUDED IN STORE AND DISTRIBUTION EXPENSES:

	<u>UNAUDITED</u> <u>CURRENT</u> <u>HALF YEAR</u> <u>(\$000)</u>	<u>UNAUDITED</u> <u>PRIOR</u> <u>HALF YEAR</u> <u>(\$000)</u>
Operating Lease Rental Expense	6,295	6,441
Employee Benefits	14,998	15,582

6) CAPITAL COMMITMENTS

The value of capital commitments at 31 October 2009 is \$0.1million.

7) CONTINGENT LIABILITIES

The Group has contingent liabilities of \$nil.

Smiths City Group Limited has guaranteed the borrowings from Fisher & Paykel Finance Limited which are secured against the finance receivables of Smithcorp Finance Limited.

The parent company has, under certain conditions, guaranteed up to \$550,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand.

8) EVENT AFTER BALANCE DATE

The company opened a new Smiths City store in Porirua in December 2009.

STORE LOCATIONS 2010
SMITHS CITY; POWERSTORE; L V MARTIN; ALECTRA
Operating in 50 sites

