SMITHS CITY GROUP LIMITED

HALF YEAR REPORT

31 OCTOBER 2008

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 220 Christchurch
AUDITORS	KPMG P O Box 274 Christchurch
SHARE REGISTRARS	Link Market Services P O Box 384 Ashburton Telephone 03 3088887

ADDRESS FOR COMMUNICATIONS

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SUMMARY OF FINANCIAL PERFORMANCE

On 23 December the Directors announced an operating surplus after taxation of $0.820million compared with $1.759million last year – a decrease of 53.4%.

Sales revenues for the period decreased from $133.2million to $114.2million.

As a result of the impact of the economic downturn on the furniture market, during the period the company reappraised its import purchasing requirements. The company determined that certain hedging instruments no longer met the requirements for hedge accounting as they had become ineffective. Favourable exchange rate movements resulted in the change in fair value of these instruments having a positive impact and as a result approximately $380,000 of gains were realised in the six months ended 31 October 2008. At exchange rates on that date there remains an additional $791,000 of unrealised mark to market gains which are included in equity at 31 October 2008.

TRADING

The difficult trading conditions affecting all businesses have been well documented in the media and are clearly having a negative impact on our trading results.

Smiths City operates in three key market segments – big ticket retail, customer financing and the property market. In the six months to October all three areas have been hit by market factors:

» Retail demand has been down as a result of lack of consumer confidence.

» From a finance perspective higher interest rates have not been recovered from customers as a result of competitive pressure.

» In the property sector we act as an investment company owning our flagship store and head office in Christchurch and also seek out property development opportunities involving our retail operations. Last year's first half result included a profit of $549,000 on the development of our Gore store. This year we have completed a similar development on our Gisborne store which was sold in December, for book value, with the proceeds used to reduce debt.

Retail underpins all our operations and retail conditions in home appliances, furniture and flooring are probably the worst for 15 years. A decline in same store sales and operating profit is not, therefore, surprising. However business, and particularly retail, is cyclical. The key to handling the difficult conditions is:

» Keep sales of core products ahead of the market.

» Ensure that the company is well placed to take advantage of the eventual upturn in retail conditions, and

» Successfully manage the key fundamentals of the business particularly expenses, stock levels and debtors' arrears.

In appliances and sports we have held market share across the board in spite of some incredibly aggressive competition. Furniture and flooring sales were down by around 9%. Whilst this is disappointing, in a market down 17% we have improved market share in this very important area. We are very pleased to have exited the building market last year as this is a particularly competitive sector.

Stock turns, allowing for normal seasonal variances as we enter the summer season, are improving, aged stock is down and there is no significant worsening in our debtors' arrears. Trading expenses are below last year and in line with budget. In addition we have opened a new Smiths City store in Tauranga, which is trading very well, and substantially reorganised our L V Martin operations in Wellington including the acquisition of the Adelaide Road business of competitor Newbolds.

OUTLOOK

Whilst November trading was very difficult (same store sales were 3.1% down) December was better (same store sales up 2.0%) with appliances being the main seller. The furniture and flooring markets continued to be very subdued. Aggressive competition across all product categories meant that margins were soft.

Looking ahead the inevitable increase in prices of imported products, as a result of the weakening New Zealand dollar, will have some impact on demand particularly in the first half of 2009. Therefore, priorities for management will continue to be:

» An aggressive stance in the market place ensuring that we at least hold our market share in those products that we see as being core to our future success – consumer electronics, kitchen appliances, beds, furniture, flooring and sporting goods.

» Reduction in the cost base without affecting customer service and business efficiencies.

» Micro management of stock and debtors.

However, there are some positives emerging. In particular, falling interest rates will benefit the finance company. We are confident this will prove to be a competitive advantage for us as we go forward given the difficulties facing other consumer finance companies. Also as the tougher times continue it is inevitable that some competitors will exit the market.

From experience we know that when conditions improve the market upturn in our sector tends to be very strong as consumers have deferred their purchasing. However, we do need to be realistic and it is the ability to keep our expenses down and stock and debtors under control that is the key for us over the next 12 months or so. But if the right opportunities come along we will be ready to take advantage of them.

Dated 20 January 2009

C D BOYCE
CHAIRMAN

J A DOBSON
DEPUTY CHAIRMAN

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED INCOME STATEMENT
FOR THE HALF YEAR ENDED 31 OCTOBER 2008

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	AUDITED FULL YEAR 30.4.08 ($000)
Sales Revenue	114,191	133,153	252,407
Cost of Goods Sold	(82,372)	(97,724)	(182,855)
Gross Profit	31,819	35,429	69,552
	27.86%	26.61%	27.56%
Other Income	62	674	776
Store and Distribution Expenses	(28,120)	(31,037)	(60,034)
Administrative Expenses	(2,238)	(3,192)	(5,745)
	(30,296)	(33,555)	(65,003)
Results From Operating Activities	1,523	1,874	4,549
Finance Income	4,622	4,826	9,433
Finance Costs	(5,418)	(4,982)	(10,525)
Net Finance Costs	(796)	(156)	(1,092)
Share of Profit of Equity Accounted Investees	93	41	105
Profit Before Tax	820	1,759	3,562
Taxation	-	-	-
Profit for the Period Attributable to Members of the Company	820	1,759	3,562
Earnings Per Share	1.5cents	3.3cents	6.7cents

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

UNAUDITED CONSOLIDATED STATEMENT
OF RECOGNISED INCOME AND EXPENSE
FOR THE HALF YEAR ENDED 31 OCTOBER 2008

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	AUDITED FULL YEAR 30.4.08 ($000)
Fair Value Gain Taken to Cash Hedge Reserve	780	483	602
Gain on Acquisition of Minority Interest	-	-	78
Income and Expense Recognised Directly in Equity	780	483	680
Profit For Period	820	1,759	3,562
Total Recognised Income and Expense For The Period Attributable to Members of the Company	1,600	2,242	4,242

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED BALANCE SHEET
AS AT THE HALF YEAR ENDED 31 OCTOBER 2008

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	AUDITED FULL YEAR 30.4.08 ($000)
CURRENT ASSETS			
Cash and Cash Equivalents	1,999	1,108	1,853
Trade and Other Receivables	14,750	13,731	12,138
Property Intended For Sale	2,520	-	2,395
Inventories	38,282	39,235	37,664
TOTAL CURRENT ASSETS (excluding Smithcorp)	57,551	54,074	54,050
SMITHCORP ASSETS			
Smithcorp Cash and Cash Equivalents	1,251	700	1,408
Smithcorp Receivables – Current Portion	55,751	50,423	54,333
Smithcorp Receivables – Term Portion	38,374	42,822	41,177
TOTAL SMITHCORP ASSETS	95,376	93,945	96,918
OTHER ASSETS			
Property Plant and Equipment	25,729	27,155	26,285
Intangible Assets	3,618	3,431	3,647
Investment Properties	1,225	1,171	1,225
Investments in Equity Accounted Investees	589	432	496
Deferred Taxation	3,793	3,793	3,793
TOTAL OTHER ASSETS	34,954	35,982	35,446
TOTAL ASSETS	187,881	184,001	186,414
CURRENT LIABILITIES			
Bank Overdraft	1,935	2,202	181
Short Term Loan on Property Intended for Sale	2,300	-	2,300
Secured Borrowings	12,357	11,167	11,643
Trade Payables	18,167	20,436	16,774
Other Payables and Provisions Including Derivatives	5,750	5,859	6,301
TOTAL CURRENT LIABILITIES	40,509	39,664	37,199
SMITHCORP BORROWINGS	86,413	85,356	88,164
NON CURRENT LIABILITIES			
Secured Borrowings	14,606	13,846	14,709
TOTAL LIABILITIES	141,528	138,866	140,072
NET ASSETS	**46,353**	**45,135**	**46,342**
SHAREHOLDERS' FUNDS			
Share Capital Reserves	10,652	10,652	10,652
Revaluation Reserve	8,971	8,971	8,971
Other Reserves	688	(211)	(92)
Retained Earnings	26,042	25,723	26,811
TOTAL EQUITY	**46,353**	**45,135**	**46,342**
Net Tangible Assets per Share	72.4cents	70.8cents	72.5cents

SMITHS CITY GROUP LIMITED
UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 OCTOBER 2008

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	AUDITED FULL YEAR 30.4.08 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers	108,084	134,086	249,335
Receipts From Sale Of Properties	-	2,610	2,610
Interest Received – Smithcorp	3,370	2,647	5,503
Interest Received – Other	160	129	267
Total Cash Flows From Operating Activities	111,614	139,472	257,715
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees	(105,902)	(131,252)	(241,081)
Purchase Properties Subsequently Sold	-	(2,096)	(2,096)
Interest Paid – Smithcorp	(4,101)	(3,831)	(7,694)
Interest Paid – Other	(1,317)	(1,150)	(2,717)
Total Cash Flows Applied To Operating Activities	(111,320)	(138,329)	(253,588)
NET CASH INFLOW FROM OPERATING ACTIVITIES	294	1,143	4,127
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayments of Advances by Customers	1,385	-	-
Sale of Property Plant and Equipment	-	265	265
Total Cash Flows From Investing Activities	1,385	265	265
CASH WAS APPLIED TO:			
Advances to Customers	-	(1,271)	(3,536)
Purchase of Minority Interests and Investments	-	(691)	(691)
Purchase of Property Plant and Intangibles	(714)	(1,781)	(2,379)
Total Cash Flows Applied to Investing Activities	(714)	(3,743)	(6,606)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	671	(3,478)	(6,341)
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipt of Advances to Fund Finance Receivables	-	1,388	4,196
Receipt of Loan	611	1,727	3,066
Total Cash Flows From Financing Activities	611	3,115	7,262
CASH WAS APPLIED TO:			
Repayments of Advances to Fund Finance Receivables	(1,751)	-	-
Pay Dividend	(1,590)	(2,118)	(2,912)
Total Cash Flows Applied to Financing Activities	(3,341)	(2,118)	(2,912)
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	(2,730)	997	4,350
Net Increase (Decrease) in Cash Held	(1,765)	(1,338)	2,136
Cash at Beginning of Period	3,080	944	944
Cash at End of Period	1,315	(394)	3,080

RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES

Profit Per Accounts Before Earnings From Associate	820	1,759	3,562
Less Share of Earnings From Associate	(93)	(41)	(105)
Less Revaluation Of Investment Properties	-	-	(54)
Add Depreciation and Amortisation	1,299	1,117	2,447
	2,026	2,835	5,850
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
Add Decrease (Deduct Increase) Receivables	(1,956)	933	2,431
Add Decrease (Deduct Increase) Inventories	(618)	687	2,258
Add Increase (Deduct Decrease) Accounts Payable & Provisions	842	(3,312)	(6,412)
Movements in Working Capital	(1,732)	(1,692)	(1,723)
Net Cash Inflow From Operations	294	1,143	4,127

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 2008 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 2008 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 2008.

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

	RETAIL		PROPERTY		ELIMINATION		TOTAL	
	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	114,191	133,153	-	-	-	-	114,191	133,153
Internal Sales Revenue	-	-	874	773	(874)	(773)	-	-
Total Segment Revenue	114,191	133,153	874	773	(874)	(773)	114,191	133,153
Segment Result	627	1,009	193	750	-	-	820	1,759
Segment Assets	163,676	162,595	24,205	21,406	-	-	187,881	184,001
Segment Liabilities	(124,350)	(125,063)	(17,178)	(13,803)	-	-	(141,528)	(138,866)
	39,326	37,532	7,027	7,603	-	-	46,353	45,135
Capital Expenditure	714	1,781	-	-	-	-	714	1,781
Depreciation	1,256	1,073	43	44	-	-	1,299	1,117

4) STATEMENT OF MOVEMENTS IN EQUITY FOR THE HALF YEAR ENDED 31 OCTOBER 2008

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)	AUDITED FULL YEAR 30.4.08 ($000)
EQUITY AT BEGINNING OF PERIOD	**46,342**	**45,768**	**45,768**
Net Surplus Attributable to Members for Period	820	1,759	3,562
Gain in Acquisition Minority Interest Taken to Equity	-	-	78
Purchase of Minority Interests	-	(757)	(756)
Effective Portion of Changes in Fair Value of Cash Flow Hedges	780	483	602
Dividends Paid	(1,589)	(2,118)	(2,912)
EQUITY AT END OF PERIOD	**46,353**	**45,135**	**46,342**

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

	UNAUDITED CURRENT HALF YEAR ($000)	UNAUDITED PRIOR HALF YEAR ($000)
Operating Lease Rental Expense	6,441	6,526
Employee Benefits	15,582	17,161

6) CAPITAL COMMITMENTS

The value of capital commitments at 31 October 2008 is $nil (31 October 2007 $2.3million).

7) CONTINGENT LIABILITIES

The parent company has guaranteed $400,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand (30 April 2008 and 31 October 2007 $400,000).

The Group has contingent liabilities of $nil (30 April 2008 and 31 October 2007 $nil).

8) EVENT AFTER BALANCE DATE

The company completed the sale of property in Gisborne for $2.52million on 19 December 2008.