

Smiths City Group Limited

**INTERIM REPORT
&
FINANCIAL STATEMENTS**

31 OCTOBER 2004

**SMITHS CITY GROUP LIMITED AND SUBSIDIARIES
INTERIM REPORT & FINANCIAL STATEMENTS
31 OCTOBER 2004**



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DIRECTORS' REPORT

FINANCIAL PERFORMANCE

Your Directors are pleased to report an unaudited pre-tax profit from operations of \$2.574million for the six months to 31 October 2004 – an increase of 2.1% over the six months to October 2003. Operating revenue in the same period increased 2.6% from \$100.856million to \$103.516million.

As a result of a taxation refund arising from the settlement of a tax dispute relating to the 1999 tax year, profit after taxation rose from \$1.710million for the six months to October 2003 to \$3.945million for the six months to October 2004.

Subsequent to 31 October 2004 the company received a favourable binding ruling in regard to the settlement of a tax dispute relating to the 2003 tax year. No benefit arising from this settlement has been taken in to the result to October 2004. As previously reported the company is expecting a tax refund of approximately \$2.4million and the availability of losses of between \$32 and \$52million to be available from the 2003 year onwards. The company's advisers are currently working with the IRD to enable finalisation of this issue as soon as possible.

DIVIDEND

The Directors have declared an interim dividend (without imputation credits) of 1.5cents per share up from the 1cent paid last year. The previous years dividend had imputation credits attached to it.

In December 2004 the Directors paid a one-off special dividend of 1.5cents per share with no imputation credits attached. This payment was in recognition of the benefit the company will receive from settlement of the 2003 tax position.

TRADING SUMMARY

As has been widely reported in the media, retail trading conditions in the six months to October 2004 were not easy with very aggressive competition across all retail categories.

Whilst price deflation in many of the products we sell stimulated demand it also meant that significantly more units had to be sold to achieve the same dollar value in sales. When the additional costs generated in such trading conditions are combined with rising interest rates, increased costs of wages and petrol and unseasonal weather conditions there has been significant pressure on bottom line profitability. Under the circumstances the small gain the company has made in operating profit is considered a satisfactory result.

In the six months to October the company completed the expansion of the Smiths City Oamaru store and committed to a new Smiths City store in Kaikoura. A "small format" store approximately 650 square metres in size it is due to open in the second half of 2005.

DIRECTORS' REPORT (continued)

On 1 November the company successfully completed the acquisition of 80% of L V Martin & Son Limited – a Wellington based specialist appliance retailer with four retail stores supported by a whiteware and consumer electronics service and repairs operation. L V Martins has a similar “full service” approach to its retail activities to Smiths City and the Directors are confident that it will be a valuable addition to the Group. In December an additional store was opened – in Porirua – and in January their Central City store in Lambton Quay relocated to larger premises in Willis Street.

INVESTMENTS

On 30 September 2004 the company received a distribution of \$279,000 from Wairau Park Limited – a property development company in which the company has a 21.9% shareholding. At 30 April 2004 Smiths City Group Limited carried in its balance sheet an investment in Wairau Park Limited of \$248,000. The property development is now substantially complete and no further distributions of any material size will arise. Accordingly, the company has used the distribution to write the investment to nil and the balance (\$31,000) has been taken to income.

The remaining investment (\$120,000) is the cost of the 30% shareholding the company owns in Adventure Brands Limited. This is a distribution company, based in Tauranga, set up in 2002 to distribute the Bauer brand of cycles and other leisure equipment.

SHAREHOLDER ISSUES

In November 2003 the company listed its shares on the NZAX division of the New Zealand Exchange. This move achieved the overall objective of maintaining an independent means of establishing a share price and trading mechanism for shareholders. However, as the only listed retailer on the NZAX the Directors were concerned that the company had not enjoyed the public profile of those retailers whose shares were listed on the NZSX. As a result in July 2004 the company transferred trading of its shares to the NZSX.

This move, when combined with the Group's other achievements in the 2004 calendar year, saw its share price rise from 58cents on 1 January 2004 to 88cents on 31 December 2004.

OUTLOOK

November trading conditions were reasonably soft and whilst December saw good demand for certain products the unseasonal weather conditions had an adverse impact on sales of outdoor products. The outlook for the 2005 year is uncertain. Whilst parts of the economy are looking strong the prospect of a sustained high dollar, slowing building sector, increasing costs of doing business and possible further increases in interest rates will undoubtedly have an impact on the retail sector and, hence, our own financial performance.

However the company has made significant improvements in efficiencies and results over the last five years and the Directors are confident that the current strategy of offering full service and quality brands throughout all its operations will continue to serve it well in the long term.

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STATEMENT OF FINANCIAL PERFORMANCE
FOR HALF YEAR ENDED 31 OCTOBER 2004

	UNAUDITED CURRENT HALF YEAR YEAR (000S)	UNAUDITED PRIOR HALF YEAR YEAR (000S)	AUDITED FULL YEAR 30.4.04 (000S)
OPERATING REVENUE			
Total Operating Revenue	103,516	100,856	205,077
TRADING PROFIT	2,542	2,522	6,084
Plus Dividend From Associate	32	0	258
PROFIT FROM OPERATIONS	2,574	2,522	6,342
Plus (Less) Tax on Operating Profit	1,371	(812)	(2,008)
OPERATING PROFIT AFTER TAX ATTRIBUTABLE TO MEMBERS OF THE COMPANY	3,945	1,710	4,334

STATEMENT OF MOVEMENTS IN EQUITY
FOR HALF YEAR ENDED 31 OCTOBER 2004

	UNAUDITED CURRENT HALF YEAR YEAR (000S)	UNAUDITED PRIOR HALF YEAR YEAR (000S)	AUDITED FULL YEAR 30.4.04 (000S)
Equity at Beginning of Period	31,675	26,823	26,823
Add Net Surplus for the Period	3,945	1,710	4,334
Deduct Dividend Paid	(1,328)	(1,059)	(1,588)
Add Revaluation Reserve Increase	-	-	2,106
Total Equity at End of Period	34,292	27,474	31,675

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STATEMENT OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY
FOR HALF YEAR ENDED 31 OCTOBER 2004

	UNAUDITED CURRENT HALF YEAR YEARS (000S)	UNAUDITED PRIOR HALF YEAR YEARS (000S)	AUDITED FULL YEAR 30.4.04 (000S)
CURRENT ASSETS			
Cash on Hand	21	21	21
Short Term Deposits	2,080	2,810	2,320
Accounts Receivable	10,075	10,073	8,275
Taxation Receivable	579	0	0
Inventories	33,900	32,679	32,044
Deposit on Investment	1,000	0	0
TOTAL CURRENT ASSETS	47,655	45,583	42,660
SMITHCORP ASSETS			
Smithcorp Bank Balances and Deposits	1,000	491	746
Smithcorp Receivables – Current Portion	47,977	49,286	49,224
Smithcorp Receivables – Term Portion	38,994	36,171	37,306
TOTAL SMITHCORP ASSETS	87,971	85,948	87,276
OTHER ASSETS			
Investments	120	368	368
Property, Plant and Equipment	22,779	18,488	22,602
TOTAL OTHER ASSETS	22,899	18,856	22,970
TOTAL ASSETS	158,525	150,387	152,906
CURRENT LIABILITIES			
Accounts Payable	19,572	21,100	18,664
Taxation Payable	0	90	128
Bank Accounts	4,087	3,596	1,720
Provisions	6,359	6,371	6,365
TOTAL CURRENT LIABILITIES	30,018	31,157	26,877
TOTAL SMITHCORP FINANCE LIABILITIES			
Finance Receivable Borrowings	77,115	76,448	77,254
NON CURRENT LIABILITIES			
Secured Borrowings	11,000	11,000	11,000
Property Redevelopment Borrowings	6,100	4,308	6,100
TOTAL TERM LIABILITIES	17,100	15,308	17,100
TOTAL LIABILITIES	124,233	122,913	121,231
NET ASSETS	34,292	27,474	31,675
SHAREHOLDERS' FUNDS			
Share Capital	10,652	10,652	10,652
Reserves			
Revaluation Reserves	5,433	3,327	5,433
Other Reserves	94	94	94
Retained Profits	18,113	13,401	15,496
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO MEMBERS OF THE HOLDING COMPANY	34,292	27,474	31,675



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STATEMENT OF CASHFLOWS FOR THE YEAR
FOR THE HALF YEAR ENDED 31 OCTOBER 2004

	UNAUDITED CURRENT HALF YEAR 2004 (000S)	UNAUDITED PRIOR HALF YEAR 2004 (000S)	AUDITED FULL YEAR 2004 (000S)
CASHFLOWS FROM OPERATING ACTIVITIES			
Cash Provided From:			
Receipts From Customers	93,877	91,192	190,354
Interest From Customers	3,698	4,346	8,248
Dividend Received	32	0	258
Tax Refund	1,371	0	0
Interest Received	253	0	74
TOTAL CASH PROVIDED	99,231	95,538	198,934
Cash Applied To:			
Payments To Suppliers and Employees	94,138	90,319	186,314
Interest Paid			
Finance Company	2,716	2,622	5,332
Bank and Other	982	698	1,571
Income Taxes Paid	710	670	1,808
TOTAL CASH APPLIED	98,546	94,309	195,025
NET CASHFLOW FROM OPERATING ACTIVITIES	685	1,229	3,909
CASHFLOWS FROM INVESTING ACTIVITIES			
Cash Provided From:			
Proceeds From Realisation of Investment	248	0	0
TOTAL CASH PROVIDED	248	0	0
Cash Applied To:			
Purchase Property, Plant & Equipment	(958)	(3,900)	(6,201)
Deposit for Investment	(1,000)	0	0
TOTAL CASH APPLIED	(1,958)	(3,900)	(6,201)
NET CASHFLOW USED IN INVESTING ACTIVITIES	(1,710)	(3,900)	(6,201)
CASHFLOWS FROM FINANCING ACTIVITIES			
Cash Provided From:			
Property Redevelopment Borrowings	0	2,823	4,615
TOTAL CASH PROVIDED	0	2,823	4,615
Cash Applied To:			
Pay Dividend	(1,328)	(1,059)	(1,589)
TOTAL CASH APPLIED	(1,328)	(1,059)	(1,589)
NET CASHFLOWS USED IN FINANCING ACTIVITIES	(1,328)	1,764	3,026
NET INCREASE/(DECREASE) IN CASH HELD	(2,353)	(907)	734
Cash and Bank at Beginning of Period	1,367	633	633
Cash and Bank at End of Period	(986)	(274)	1,367

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NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

These Financial statements are unaudited and have been prepared in accordance with FRS-24, Interim Financial Statements, and should be read in conjunction with the previous Annual Report as at 30 April 2004. The accounting policies used are consistent with those used in previously published Interim Financial Statements and the previous Annual Report dated 30 April 2004.

2. Interest Revenue and Interest Expense

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

	UNAUDITED CURRENT HALF YEAR 2004 (000S)	UNAUDITED PRIOR HALF YEAR 2003 (000S)	AUDITED FULL YEAR 30.4.04 (000S)
- Interest Revenue Smithcorp	2,498	2,804	5,068
- Interest Revenue Other	250	34	74
- Interest Expense Smithcorp	(2,560)	(2,615)	(5,332)
- Interest Expense Other	(1,078)	(539)	(1,571)

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

Net Surplus Per Statement of Financial Performance

	3,844	1,710	4,334
- Add Depreciation	780	935	1,807
- Adjusted Net Surplus	4,624	2,645	6,141

Add/(Deduct) Movements in Working Capital

(Increase)/Decrease in Smithcorp Receivables	(340)	(534)	(1,627)
Increase/(Decrease) in Smithcorp Borrowings	(139)	(155)	652
(Increase)/Decrease in Receivables	(1,799)	(2,485)	(667)
(Increase)/Decrease in Inventories	(1,856)	(1,516)	(882)
Increase/(Decrease) in Current Liabilities	195	3,274	292
Movements in Working Capital	(3,939)	(1,416)	(2,232)
Net Cashflow From Operating Activities	685	1,229	3,909

4. Commitments and Contingent Liabilities

The Group has capital commitments of \$nil (2003 \$933,000). The parent company has guaranteed \$900,000 of borrowings by Adventure Brands Limited from the National Bank of New Zealand (2003 \$400,000). There are no contingent liabilities (2003 \$Nil).

5. Event After Balance Date

On 1 November 2004 the company completed the purchase of 80% of the business assets of L V Martin & Son Limited, a Wellington based appliance retailer and service operation.

DIRECTORY

DIRECTORS AND OFFICERS

CHAIRMAN

Craig David Boyce

DEPUTY CHAIRMAN

John Allen Dobson

DIRECTORS

Stephanie Jane Waterfield

John William Holdsworth

MANAGING DIRECTOR

Richard Hellings

ALTERNATE DIRECTOR

Gerald Haworth Willis

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