



SMITHS CITY GROUP

HALF YEARLY REPORT

31 OCTOBER 2016

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OUR VISION

To be THE trusted national provider for our customers' needs across New Zealand, everyday

CORE VALUES

CUSTOMER FOCUS

The customer is at the heart of what we do – everyday, everytime

INTEGRITY

Our promise is our most important product; our word is our bond

PROFESSIONALISM

We achieve the highest standards; honesty and fairness guide us

COMMUNICATION

Sharing timely, accurate information is the key to our success

OUR MISSION

To operate a profitable national network of not less than 30 stores under the Smiths City brand

KEY FACTS

SAME STORE SALES

\$97.8M

UP 7.73% ON PRIOR YEAR

OPERATING PROFITS

\$2.160M

UP 67.2% ON PRIOR YEAR

INVENTORY LEVELS

(EXCL FURNITURE CITY)

\$35.3M

20.4% REDUCTION ON PRIOR YEAR

COMPANY PROFILE

Corporate Structure

High profile national retailer Smiths City Group Limited is listed on the NZX main board and has just over 1,200 shareholders.

The Christchurch-based Group has several subsidiary registered companies that cover a range of business activities and encompass its aspirations and future direction.

Smiths City was founded in Christchurch in 1918 and continues to occupy the same site on Colombo Street in which it first traded. The Group now comprises 29 Smiths City-branded stores throughout New Zealand, 4 clearance centres and also owns *Furniture City* which has 3 sites in the Auckland/Northland region. Smiths City and Furniture City also operate fully integrated online platforms. Smiths City is a nationwide New Zealand retailer and a brand trusted and respected throughout the country.

The evolving and innovative group of companies is active in a number of complementary industry segments, including retail and consumer finance. Smiths City proudly employs approximately 520 New Zealanders.

Brands

A core strength of the Group is our product offering. We provide comprehensive choice to the New Zealand consumer looking for solutions to improve their lifestyle. We are proud to represent many of New Zealand's best-known brands in-store and online, including Sleepyhead, Fisher & Paykel and Cavalier Bremworth, along with leading international brands such as La Z Boy, John Young Furnishings, Ashley, LG, Haier, Samsung, Panasonic, Hewlett Packard, Apple, Electrolux, Mitsubishi Electric and Bosch, amongst others. We're also proud to support New Zealand manufactured furniture produced by Outback and Coastwood.

In addition to sourcing furniture from New Zealand manufacturers and distributors, the company operates a substantial import programme handling over 500 containers a year through its national Distribution Centre, located in Christchurch.

Our strategy aims to achieve an appropriate balance between lower-margin, high quality categories that drive foot traffic, and higher-margin products.

The Group maintains a competitive position on market pricing and is one of the country's leading mass media advertisers.

The Group is a founding member of the New Zealand appliance buying group NARTA. Membership of this buying group has yielded significant benefits within the highly competitive appliance market.

The Customer Experience

The Group strives to provide a customer experience that is second to none in terms of quality goods, knowledgeable staff and outstanding in-store service. We believe that understanding our customer's needs and providing outstanding customer service whether online or in-store is core to our success.

Online Strategy

The Group regards the Internet as central to sales growth and believes in an integrated approach when viewing online and "traditional" retail channels, seeing them as seamless and enabling the customer to engage with Smiths City as they require. Our strategy is, therefore, to respond and deliver the best customer experience however our customers wish to transact.

Finance

Consumer finance is an integral part of the Group's service model and we continue to offer flexible finance options provided through our own finance company. Our integrated consumer financing business facilitates add-on sales and additional income streams across our portfolio.

Our finance company provides a range of point of sale finance options to retail customers, including secured fixed instalments, revolving credit customer accounts and unsecured personal loans to individual customers with a proven credit history.

The consumer finance ledger, as at 31 October 2016, had approximately 53,000 active accounts. Day to day control of the ledger provides a unique opportunity to build strong customer relationships and customer loyalty.

Property and Commercial Needs

Prime store locations and superior on-floor presentations are critical within the retail sector. We do not believe that we necessarily have to own the premises to deliver the Smiths City customer experience.

The Group's property company is used to undertake developments for the retail business when appropriate opportunities arise.

The Group also operates a Commercial division to serve commercial and insurance sourcing needs.

Environment

Smiths City is committed to restricting its practices to those that minimise environmental and social impacts. The business has embarked on a new policy of actively identifying practices where any effects on the environment can be reduced.

The Group assists with recycling second-hand goods through the operation of its chain of clearance centres.

Smiths City is a member of the New Zealand Imported Tropical Timber Group. Members are committed to purchase wooden furniture produced solely from renewable and sustainable timber.

We have assurances from our suppliers that furniture products imported from overseas are manufactured from timbers grown in sustainable forests and plantations, and not rain forests.

The Group will continue to expand its practices to reduce waste and slow the use of primary resources.

Community Support

Smiths City is fully committed to being involved in the communities it serves.

The Group remains dedicated to the ongoing support of the efforts of the Ronald McDonald House Charity throughout the country.

The Group has also signed up as an associate sponsor with the well known reputable national charity Cure Kids New Zealand. Cure Kids represents a strong fit with our brand and offers us a nationwide profile that we can integrate at a retail store level.

Along with this initiative Smiths City sponsored a child on the annual Air New Zealand Koru Care trip to Disneyland which took place in October 2016.

Also in October/November Smiths City partnered up with Fisher & Paykel and NARTA to support the Hands Across the Water Children's Charity. This involved a five day 500km bicycle ride through Thailand and money was raised via sponsorship. CEO Roy Campbell participated in the ride.

The Group continues to actively seek organisations to partner with to better our communities, and those who live in them, across New Zealand.

DIRECTORS' REPORT

Results

The Directors of Smiths City Group Limited, the Christchurch based retailers, have announced an operating surplus after taxation for the six months to 31 October 2016 of \$1.37 million compared with \$2.55 million last year. (The prior year surplus included a one off profit of \$1.8 million flowing from the sale of the company's Colombo Street, Christchurch store and a deferred taxation credit of \$0.9million).

Additionally both period results were affected by "one off" costs due to restructuring and the closure of uneconomic stores.

Total revenues for the six months were \$113.9 million – a 7.2% increase on the previous half year. This increase rises to 18% ahead of last year if revenue from discontinued operations is removed from the prior year result.

The summary of consolidated results is as follows:

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)	INCREASE ON PRIOR PERIOD
Revenue	113,919	106,248	7.2%
Trading Profit	2,159	1,291	67.2%
Abnormal Items	(695)	(1,411)	
Other Income – Gain On Sale Of Property	-	1,799	
Profit Before Tax	1,464	1,679	
Deferred Taxation *	(94)	876	
Profit for the Period	1,370	2,555	
Earnings Per Share For Profit Attributable to Equity Holders (Cents)	2.6	4.8	

* The deferred tax charge for the current period takes into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes as well as the movement in the company's estimates of future taxable profits on the basis these can be offset against the tax losses available. Smiths City has available carry forward tax losses of \$6.8million, hence no income tax is payable.

The Directors have declared a fully imputed half year dividend of 1.0 cent per share (last year 1.0 cent unimputed) to be paid on Friday 10 February 2017.

For the purposes of the dividend the share register will close at 5.00pm on Friday 3 February and reopen at 9.00am on the Tuesday 7 February 2017.

The Board was pleased to report the 67% improvement in the core trading profits during the six months compared with last year. Many of the structural changes made and closures of loss making businesses have

begun to "kick in" now as the new management team settle in more improvements are expected.

In addition the Balance Sheet shows a strengthened position with Total Assets down by \$2.3 million to \$131.332 million despite adding \$5.0 million of stock due to the acquisition of the three store Furniture City chain. The Group has no borrowings other than that required for Smiths City Finance, our customer finance offering.

The company continued, during this six months, the major restructuring of the business which commenced last year to improve results and prepare the company for growth. The focus, however, has shifted to store and revenue growth, improvements in the customer product, service and finance offering, changes in focus in our branding and promotion, and improvement in gross margin.

In addition we are seeking more economic delivery and logistics processes and our IT systems.

More detail on these initiatives is included in the Chief Executive's Review to follow.

Shareholders will be pleased that we are now paying a fully imputed dividend which significantly increases the cash amount paid to them. The company, as at last balance date, had remaining carry forward tax losses of \$6.8 million and most of these will be used in the current trading year. As we move into next year company tax will be payable. After taking tax advice from PricewaterhouseCoopers we have decided to anticipate this and begin paying our dividend as fully imputed.

Our sales in all regions were up on last year as outlined in the 7.7% increase in "same stores" sales. Growth was higher in our 13 North Island stores than in the South Island with some regional areas affected by the rural downturn. Overall, however, our stores performed well in both maintaining sales and pushing for higher margins. While supplier rebates are lower as a result of a change in buying policies directed at "what sells" and stock reduction, this is more than compensated by higher profits and lower stock levels.

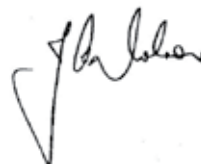
The Board and Management are continuously reviewing the Company Strategy and Business Plan. The acquisition of the furniture and bedding chain Furniture City has enabled us to shift our mix of merchandise. The low margin appliance and whiteware business is now for the first time a lower percent of sales than the higher margin furniture business. While appliances is still a very important part of our customer demand and foot traffic the changes mean we are in effect out of "stand alone retail appliance stores". The finance product we offer customers has changed to a more relevant "interest free" basis for fixed monthly instalment and our ongoing monthly "revolving credit" account. The Smiths City "store owned finance" offer remains a vital part of the Brand and reason for customer to return.

Many companies and Government departments in New Zealand have been assessing compliance with the Holiday Pay legislation enacted in 2003. The rules around calculation of holiday pay are complex and open to interpretation, we have decided that a liability does exist and have taken the prudent decision to include in the six month results a provision for this liability. On advice of our auditors, we have taken this amount through prior year reserves.

We look forward to the second half of the year with confidence. The coming Christmas and New Year trading are an exciting and important trading period to Smiths City and we are well prepared.



C D BOYCE
CHAIRMAN



J A DOBSON
DEPUTY CHAIRMAN

CHIEF EXECUTIVE'S REVIEW

The six months to October 2016 saw Smiths City continue to build on the initiatives taken during the prior year to position the company for growth and improved profitability. Both margin and revenue improved on a same stores basis (7.7% increase in revenue compared to the same period in the year prior and a pleasing 1% increase in Gross Margin).

Additionally, we enjoyed the financial benefit flowing from our acquisition of the Auckland based retailer, Furniture City in April of this year.

The improvement in our trading activities derives in part from our reset of our marketing activities based on the research carried out early in the year; in part from our focus on instore execution and our continued enhancement of our product selection. It is also appropriate to recognise our team throughout Smiths City who have, through their engagement, ensured that we deliver a superior retail experience to that of our competitors.

Our Retail Proposition

While we still have internal efficiencies to implement that will result in further savings to the Group via continuous improvement to our buying, marketing, logistics and systems platforms, our biggest opportunity is in the reset of how we present our offering to the consumer.

Delivering an improved instore experience will then ensure alignment of our marketing, operational and virtual activities and present one cohesive view of Smiths City.

To achieve this we engaged Studio Gascoigne to redesign our store look and feel. The first rollout of this new concept will be in our new Hastings store opening in February 2017. Our new concept will clearly signal to the market and our customers the value and service they can expect from Smiths City and demonstrates our point of difference when compared to others. This new look and feel will then be rolled out across our network, targeting key locations as a priority.

Inventory and Category Management

We continue to monitor our inventory levels to ensure that they are appropriate to our needs and not those of our suppliers. The six months to October saw a 20.4% reduction in inventory held in the business, made

possible via a more informed structured approach to our purchasing and category management and in part by the initiatives taken to centralise inventory held. There remains considerable work to do in resetting our categories as we move from a rebate driven purchase environment to a structured approach to purchasing based on consumer demand and maximized return on investment to the company.

The majority of the one off costs incurred in the six months to October resulted directly from the reset of our buying department to a Category management approach that included the addition of a Merchandising Planner to the team. This position brings consistent visibility to purchasing decisions across all categories. It permits structured purchasing against specific event planning going forward, as opposed to promoting what is in stock or what the supplier presents. The focus on Inventory Management also saw the closure of non-core satellite warehousing across the country.

A core component of our purchase of Furniture City was its Auckland based warehousing facility which is a purpose built modern facility located in Manukau.

This facility will be repurposed in 2017 to service our growing North Island store network. Having this facility in our network has the additional benefit of decreasing our reliance on freight movements between the North and South Islands.

Customer Engagement

We are also working hard on improving how we engage, relate and retain our customers through improving our Internet and customer relationship practices. While we see a vibrant future for the “bricks & mortar” retail offering, competitive advantage will be found in the blending of the virtual and physical offering creating a seamless interaction with our customer base, allowing them to enjoy the benefits of shopping with Smiths City how, where and when they choose.

This requires the use of data to more closely provide a relevant, timely offer to our customer base. To enable this to occur, a comprehensive plan for the introduction of a new information platform has been presented to the Board and the implementation of this is planned during 2017, with final completion mid 2018.

This represents a significant investment for Smiths City and addresses the issues around our current legacy systems, which are outdated and constrain our company from reaching its full potential.

Smiths City Finance

Our finance offering remains a core part of Smiths City, allowing us to form close relationships with our customer base.

Retaining Finance as a division is an aspect of Smiths City Group that is a unique, and I believe, envied advantage we hold over our competitors.

Our launch of interest free terms in July of this year has increased the attractiveness of our finance offer in the market and seen strong increases in profitability as a result. Our focus in 2017 will be to continue to enhance and expand the finance products we offer across the market.

It is worthy to note that all profit earned from our finance activities are retained in the Group, providing fuel for growth and further improving returns to our shareholders.

To facilitate the planned growth in our Finance Division and to ensure that the Group has an appropriate partner for the provision of its financial needs, we have, as previously advised to the market, entered into a committed terms sheet with a major bank. This change of provider results in material savings to the Group via both improved interest rates and better transactional processing; we currently believe that this will result in material savings for the Group.

Looking Forward

While we have started to see the positive impact of the reset of our company, it is fair to say that there remains much to be done and I believe there exists significant opportunity for Smiths City to increase market share and continue to deliver improved returns for our shareholders.

The continual feedback we receive from our most important critic, the customer, is that the authenticity of the experience of dealing with Smiths City is valued and is something we are justifiably proud of.

I am sure that looking forward, we can expect a challenging Christmas and remainder of our financial year as I believe the retail market will soften slightly in 2017. The initiatives taken over the past 18 months have placed Smiths City in an enviable position from which to compete and win in a tightening market, or indeed in any market. Attention to inventory, debt and sales levels have resulted in a leaner, more profitable, more competitive Smiths City that we are justifiably proud of.

Given our strengthened position, it is appropriate for the management and Board to identify opportunities for growth, from both organic and acquisitive perspectives with a view to providing greater returns for our shareholders and with a clear view to ensuring the longevity of this iconic Kiwi Brand that New Zealanders depend on every day.



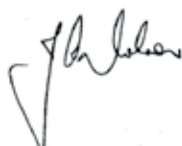
Roy Campbell,
CHIEF EXECUTIVE

FINANCIAL STATEMENTS FOR THE SIX MONTHS TO 31 OCTOBER 2016 (UNAUDITED)

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on the 20 December 2016.



C D BOYCE
CHAIRMAN



J A DOBSON
DEPUTY CHAIRMAN

UNAUDITED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS TO 31 OCTOBER 2016

	INCREASE ON PRIOR PERIOD	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)
Revenue	7.2%	113,919	106,248
Trading Profit	67.2%	2,159	1,291
Abnormal Items		(695)	(1,411)
Other Income – Gain On Sale Of Property		-	1,799
Profit Before Tax		1,464	1,679
Deferred Taxation *		(94)	876
Profit for the Period		1,370	2,555
Earnings Per Share For Profit Attributable to Equity Holders (Cents)		2.6	4.8

*The deferred tax charge for the current period takes into account temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes as well as the movement in the company's estimates of future taxable profits on the basis these can be offset against the tax losses available. Smiths City has available carry forward tax losses of \$6.8million, hence no income tax is payable.

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS TO 31 OCTOBER 2016

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)
Profit For Period	1,370	2,555
Other Comprehensive Income		
Items That May Be Reclassified Subsequently to Profit or Loss		
Cash Flow Hedges – Fair Value Gains/(Losses) Taken to Cash Flow Hedge Reserve	303	(394)
Deferred Tax Impact Cash Flow Hedges – Fair Value Gain/(Losses) Taken to Cash Flow Hedge Reserve	(84)	110
Total Comprehensive Income For The Period	1,589	2,271
Attributable to:		
Equity Holders of the Company	1,589	2,307
Minority Interests	-	(36)
	1,589	2,271

UNAUDITED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY FOR THE SIX MONTHS TO 31 OCTOBER 2016

	SHARE CAPITAL (\$000)	REVALUATION RESERVES (\$000)	HEDGING RESERVES (\$000)	OTHER RESERVES (\$000)	RETAINED EARNINGS (\$000)	TOTAL EQUITY (\$000)
BALANCE 1 MAY 2015	10,652	3,010	(678)	94	36,577	49,655
Prior Period Adjustment *	-	-	-	-	(432)	(432)
ADJUSTED BALANCE 1 MAY 2015	10,652	3,010	(678)	94	36,145	49,223
Profit For The Period	-	-	-	-	2,555	2,555
Transferred On Sale Of Property	-	(3,010)	-	-	3,010	-
Cash Flow Hedges - Fair Value Gain (Loss) Taken to Cash Flow Hedge Reserve	-	-	(394)	-	-	(394)
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	110	110
Total Comprehensive Income For Period	-	(3,010)	(394)	-	5,675	2,271
Subtotal	10,652	-	(1,072)	94	41,820	51,494
Dividends Paid	-	-	-	-	(1,318)	(1,318)
BALANCE 31 OCTOBER 2015	10,652	-	(1,072)	94	40,502	50,176
Profit For The Period	-	-	-	-	3,006	3,006
Cash Flow Hedges - Fair Value Gain (Loss) Taken to Cash Flow Hedge Reserve	-	-	(565)	-	-	(565)
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	157	157
Total Comprehensive Income For Period	-	-	(565)	-	3,163	2,598
Subtotal	10,652	-	(1,637)	94	43,665	52,774
Dividends Paid	-	-	-	-	(527)	(527)
BALANCE 30 APRIL 2016	10,652	-	(1,637)	94	43,138	52,247
Profit For The Period	-	-	-	-	1,370	1,370
Cash Flow Hedges - Fair Value Gain (Loss) Taken to Cash Flow Hedge Reserve	-	-	303	-	-	303
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	(84)	(84)
Total Comprehensive Income For Period	-	-	303	-	1,286	1,589
Subtotal	10,652	-	(1,334)	94	44,424	53,836
Dividends Paid	-	-	-	-	(1,317)	(1,317)
BALANCE 31 OCTOBER 2016						
Attributable to Equity Holders Of The Company	10,652	-	(1,334)	94	43,107	52,519

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

*Refer to Note 9 for further information in respect of the restatement in 2015.

UNAUDITED CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2016

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000) RESTATED*	AUDITED FULL YEAR 30.4.16 (\$000) RESTATED*
CURRENT ASSETS			
Cash and Cash Equivalents	6,149	2,588	6,759
Trade and Other Receivables	9,511	11,069	9,655
Inventories	40,368	44,416	40,431
TOTAL CURRENT ASSETS	56,028	58,073	56,845
SMITHS CITY FINANCE			
Cash and Cash Equivalents	503	883	1,890
Receivables – Current Portion	37,333	40,779	41,349
Receivables – Term Portion	26,854	25,810	25,307
TOTAL SMITHS CITY FINANCE ASSETS	64,690	67,472	68,546
OTHER ASSETS			
Intangible Assets	2,235	2,129	2,349
Plant and Equipment	3,713	3,039	3,690
Investments	12	12	12
Deferred Taxation	4,654	3,001	4,832
TOTAL NON CURRENT ASSETS	10,614	8,181	10,883
TOTAL ASSETS	131,332	133,726	136,274
CURRENT LIABILITIES			
Bank Overdraft	-	99	-
Trade Payables and Provisions	26,813	27,951	27,827
TOTAL CURRENT LIABILITIES	26,813	28,050	27,827
SMITHS CITY FINANCE NON CURRENT BORROWINGS	52,000	55,500	56,200
TOTAL LIABILITIES	78,813	83,550	84,027
NET ASSETS	52,519	50,176	52,247
SHAREHOLDERS' FUNDS			
Share Capital Reserves	10,652	10,652	10,652
Other Reserves	(1,240)	(978)	(1,543)
Retained Earnings	43,107	40,398	43,138
	52,519	50,072	52,247
Minority Interests	-	104	-
TOTAL EQUITY	52,519	50,176	52,247
Net Tangible Assets Per Share (Cents)	95.43	91.18	94.70

The above consolidated balance sheet should be read in conjunction with the accompanying notes

*Refer to Note 9 for further information in respect of the restatement in 2015.

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS TO 31 OCTOBER 2016

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)	AUDITED FULL YEAR 30.4.16 (\$000)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers	106,426	97,492	212,824
Interest Received – Smiths City Finance	3,017	3,461	6,787
Interest Received – Other	-	57	133
Total Cash Flows From Operating Activities	109,443	101,010	219,744
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees	(105,794)	(99,508)	(205,259)
Interest Paid – Smiths City Finance	(1,804)	(2,034)	(3,969)
Interest Paid – Other	-	(698)	(940)
Total Cash Flows Applied To Operating Activities	(107,598)	(102,240)	(210,168)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	1,845	(1,230)	9,576
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayments of Advances by Customers	2,469	2,135	2,068
Disposal of Property	-	19,619	19,619
Total Cash Flows From Investing Activities	2,469	21,754	21,687
CASH WAS APPLIED TO:			
Acquisition of Business	-	-	(5,335)
Purchase of Property, Plant & Intangibles	(794)	(980)	(1,280)
Total Cash Flows Applied to Investing Activities	(794)	(980)	(6,615)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	1,675	20,774	15,072
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS APPLIED TO:			
Repayments of Advances to Fund Finance Receivables	(4,200)	(1,900)	(1,200)
Repay Borrowings	-	(16,070)	(16,070)
Pay Dividend	(1,317)	(1,318)	(1,845)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(5,517)	(19,288)	(19,115)
Net Increase (Decrease) in Cash Held	(1,997)	256	5,533
Cash at Beginning of Period	8,649	3,116	3,116
Cash at End of Period	6,652	3,372	8,649
RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES			
Profit Per Accounts Before Deferred Taxation	1,464	1,679	3,011
Less Gain On Sale of Property Shown As An Investing Activity	-	(1,799)	(1,799)
Add Depreciation, Amortisation and Impairment	885	826	1,605
	2,349	706	2,817
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
Add Decrease (Deduct Increase) Receivables (excl Property Held For Sale)	144	(170)	1,244
Add Decrease (Deduct Increase) Inventories	63	(2,132)	5,838
Add Increase (Deduct Decrease) Accounts Payable & Provisions	(711)	366	(323)
Movements in Working Capital	(504)	(1,936)	6,759
NET CASH INFLOW (OUTFLOW) FROM OPERATIONS	1,845	(1,230)	9,576

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

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 2013. The consolidated financial statements of Smiths City Group Limited for the six months ended 31 October 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

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) Statement of Compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZGAAP). They comply with the New Zealand equivalent to International Financial Reporting Standards (NZIFRS) and other applicable Financial Reporting Standards, as appropriate of profit oriented entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

b) Summary of Significant Accounting Policies

These general purpose financial statements for the interim six month reporting period ended 31 October 2016 have been prepared in accordance with accounting standard NZIAS 34 and IAS34 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 2016.

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 unless otherwise stated.

d) Changes in Accounting Policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 April 2016 as described in those annual financial statements and will be used in the financial statements for the year ended 30 April 2017.

e) 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.

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. There have been no changes to the areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements from those appearing in the Annual Report for the year ended 30 April 2016.

f) New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 May 2015 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

NZIFRS15 Revenue From Contracts With Customers

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. New estimates and judgemental thresholds have been introduced, which may affect the amount and/or timing of revenue recognised.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other NZIFRS.

The company intends to adopt NZIFRS15 in its financial statements for the annual period beginning on 1 May 2018. The company does not expect the standard to have a material impact on the financial statements.

NZIFRS9 Financial Instruments (2014)

NZIFRS9 (2014) introduces new requirements for the classification and measurement of financial assets. Under NZIFRS9 (2014) financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new “expected credit loss” model for calculating impairment.

NZIFRS9 (2014) also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationship or the requirement to measure and recognise the ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgement to assess the effectiveness of hedging relationship.

The company intends to adopt NZIFRS9 (2014) in its financial statements for the annual period beginning on 1 May 2018. The extent of the impact of adoption of the standard has not yet been determined.

NZIFRS16 Leases

The new Leases Standard IFRS16 was released by IASB in January 2016 and adopted by External Reporting Board in New Zealand in February 2016. The standard requires lease agreements to be recognised on balance sheet as a right to use asset, with a corresponding liability.

The company intends to adopt NZIFRS16 for the annual period beginning on 1 May 2019. This will have an impact on the balance sheet due to the number, value and length of lease commitments. However, the extent of the impact of adoption of the standard has yet to be determined.

- g) Certain comparatives have been restated to ensure consistent presentation of financial information for this period.

3) Seasonality

The Group's revenue and profitability follow a seasonal pattern with higher sales and net profits typically achieved in the second half of the financial year as a result of additional sales generated during the Christmas trading period.

4) Segment Information

The Group has three reportable operating segments that are defined by the sectors within the Group which operates namely retail, the financing of retail sales, and property. This reflects the provision of flexible branded finance options to the Group's retail customers as being considered a key and integral part of the full service offering of all the trading operations of the Group.

The following is an analysis of the Group's revenue and results by operating segment. Revenue reported below represents revenue generated from external customers. Inter segment revenue is recognised on the basis of arms length transactions.

The accounting policies of the reportable segments are the same as the Group's accounting policies.

Segment Revenue and Profit Analysis

	REVENUE FROM EXTERNAL CUSTOMERS (\$000)	INTER SEGMENT REVENUE (\$000)	TOTAL SEGMENT REVENUE (\$000)	SEGMENT PROFIT (LOSS) (\$000)
UNAUDITED 6 MONTHS ENDED 31.10.16				
Retail Activities	109,299	-	109,299	610
Finance Business	4,620	-	4,620	2,194
Property Activities – Operating	-	-	-	(77)
Parent Company	-	-	-	(568)
Total For Reportable Segments	113,919	-	113,919	2,159
Abnormal Items *	-	-	-	(695)
Consolidated Profit Before Taxation	113,919	-	113,919	1,464

UNAUDITED 6 MONTHS ENDED 31.10.15				
Retail Activities	101,123	-	101,123	(149)
Finance Business	5,125	-	5,125	1,587
Property Activities – Operating	-	661	661	319
Parent Company	-	-	-	(466)
Total For Reportable Segments	106,248	661	106,909	1,291
Gain on Sale Of Property	-	-	-	1,799
Abnormal Items *	-	-	-	(1,411)
Consolidated Profit Before Taxation	106,248	661	106,909	1,679

*Abnormal items relate to costs associated with store closures and employee restructuring.

Other Segment Information

	RETAIL ACTIVITIES (\$000)	FINANCE ACTIVITIES (\$000)	PROPERTY ACTIVITIES (\$000)	TOTAL (\$000)
UNAUDITED 6 MONTHS ENDED 31.10.16				
Assets	66,642	64,690	-	131,332
Liabilities	(26,813)	(52,000)	-	(78,813)
Equity	39,829	12,690	-	52,519
Acquisitions Of Property, Plant, Equipment and Intangibles	(794)	-	-	(794)
Depreciation And Amortisation	(860)	(25)	-	(885)
Interest Expense	-	(1,804)	-	(1,804)
Interest Revenue	-	4,620	-	4,620
UNAUDITED 6 MONTHS ENDED 31.10.15				
Assets	66,254	67,472	-	133,726
Liabilities	(28,050)	(55,500)	-	(83,550)
Equity	38,204	11,972	-	50,176
Acquisitions Of Property, Plant, Equipment and Intangibles	(967)	(13)	-	(980)
Disposals of Property	-	-	19,619	19,619
Depreciation And Amortisation	(786)	(40)	-	(826)
Interest Expense	(397)	(2,034)	(301)	(2,732)
Interest Revenue	-	5,125	-	5,125

5) Revenue

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)
Retail Sales	109,299	101,123
Revenue Including Fees From Finance Receivables	4,449	4,889
Other Finance Income	171	184
Interest Income On Bank Deposits	-	52
	113,919	106,248

6) Expenses By Nature

	UNAUDITED 6 MONTHS 31.10.16 (\$000)	UNAUDITED 6 MONTHS 31.10.15 (\$000)
Purchases Net of Rebates	*(76,015)	(68,500)
Movement in Inventory	(64)	(2,268)
Operating Lease Rental Expense	(8,133)	(7,035)
Employee Benefits	(16,472)	(17,217)
Marketing Expenses	(2,322)	(2,153)
Utilities Expenses	(1,125)	(1,446)
Insurance Expenses	(628)	(787)

* Purchases now include Furniture City which was acquired on 1 April 2016.

7) Smiths City Finance Receivables

	2016			2015		
	FIXED INSTALMENT (\$000)	REVOLVING CREDIT (\$000)	TOTAL (\$000)	FIXED INSTALMENT (\$000)	REVOLVING CREDIT (\$000)	TOTAL (\$000)
Gross Finance Receivables	63,530	19,690	83,220	73,318	20,079	93,397
Provision For Unearned Income	(17,791)	-	(17,791)	(25,545)	-	(25,545)
	45,739	19,690	65,429	47,773	20,079	67,852
Less Impairment Allowances	(747)	(495)	(1,242)	(768)	(495)	(1,263)
	44,992	19,195	64,187	47,005	19,584	66,589

The interest rate charged to customers on fixed instalment and flexible credit agreements varies. For those customers paying their accounts within the promotional term no interest is charged. However, for those customers whose accounts become interest bearing the rate charged is up to 23.95% per annum (2015 23.95%). Interest on those fixed instalment contracts where the promotional term is the same as the contract term has been excluded as historical data shows that such interest is unlikely to be collected.

The finance receivables relate to products sold on deferred payment terms. There are no unguaranteed residual values accruing to the benefit of the Group.

Releases from unearned income are calculated on the probability that contracts will enter an extended interest bearing period. This probability is assessed based on historical data.

8) Smiths City Finance Borrowings

In November 2016 the Group signed a committed terms sheet (Term Sheet) with a major trading bank to refinance the existing financial indebtedness of Smiths City and its wholly owned subsidiary Smiths City Finance Limited.

The Term Sheet is subject to final legal documentation and customer conditions precedent being satisfied. The Group will be required to provide security to the bank by way of fixed and floating charge over the Group's assets including finance business receivables. The loans will also be subject to various covenants and ratios.

The new facilities are expected to become available to the Group on or around March 2017 and will replace the existing facility which was due for renewal on or before May 2017.

9) Restatement of Prior Period

The Group has reviewed the calculations of holiday pay in accordance with the Holidays Act 2003. As a result a provision for holiday pay has been made which relates to historical holiday pay recalculations. In accordance with NZIAS8, this has been treated as a prior period adjustment. The restatement of provision for holiday pay is \$0.6 million. The restatement of the deferred tax asset on the provision for holiday pay is \$0.2 million. The nett effect of this is recorded as a reduction in opening equity at 1 May 2015 of \$0.4 million.

10) Financial Instruments

The Group's activities expose it to a variety of financial risks, market risk (including currency and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects on the Group's financial performance. The Group uses certain derivative financial instruments to hedge certain risk exposures.

The consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements. They should be read in conjunction with the Group's annual financial statements for the period ending 30 April 2016. There have been no changes in the risk management policies since year end.

The Group's classification of each class of financial assets and their fair values is set out below. Note that the only instruments designated at fair value are the derivative financial instruments. The derivatives are classified as Level 2 in the fair value hierarchy and there has been no movement between levels of fair value hierarchy during the six months ended 31 October 2016.

The Group's classification of each class of financial assets and liabilities is as follows:

- Classified at fair value – derivatives.
- Classified as loans and receivables – all other financial assets.
- Classified as other liabilities – all other financial liabilities.

Note that the fair value of the Group's financial assets and liabilities is not considered to be materially different to their carrying value.

Interest Rates Used for Determining Fair Value

The following interest rates used to discount estimated cash flows, where applicable, are based on the government yield curve at the reporting date plus an appropriate constant credit spread:

	2016	2015
Derivatives Held For Risk Management	2.91%-4.75%	2.95%-4.75%

Financial Instruments Carried At Fair Value

Fair value hierarchy

The table below analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

31 October 2016

	Level 1	Level 2	Level 3	Total
Other Investments, Including Derivatives (Current):				
Forward Exchange – Contracts Used For Hedging	-	(215)	-	(215)
Interest Rate Swaps Used For Hedging	-	(1,121)	-	(1,121)

Level 2 fair values for simple over the counter derivative financial instruments are based on observable market data which is tested for reasonableness and which reflects the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

The fair value of forward exchange contracts is determined using forward exchange rates at the period end date with the resulting value discounted back to present value.

11) Capital Commitments

Commitments in relation to refurbishment, fit-out and process improvement projects at the end of the period not provided for in the financial statements totalled \$0.5million (2015 \$0.5million).

12) Related Party Transactions

During the six months ended 31 October 2016 the company advanced and repaid loans to its subsidiaries by way of internal transfers between current accounts. In presenting the financial statements of the Group the effect of transactions and balances between fellow subsidiaries and those with the parent have been eliminated. All transactions with related parties were in the normal course of business. All transactions were provided on normal commercial terms.

INFORMATION TECHNOLOGY SERVICES

The company has an existing contract dating from 1 November 2009 with Datacom Group Limited of which Craig Boyce (Chairman of Smiths City Group Limited), is Chairman, to provide information technology outsourcing services for the computer hardware and software facilities of the company. The transactions with Datacom Group Limited are completed on a commercial arms length basis within the Chief Executive's delegated powers. Purchases for the six months ended 31 October 2016 were \$0.752million (2015 \$0.426million). The amount owing to Datacom Group Limited at 31 October 2016 was \$0.2million (2015 \$0.11million).

NARTA NZ LIMITED

The Group has an investment of \$0.01million in NARTA NZ Limited. NARTA NZ Limited is an appliance buying group of which the Group was one of the founding members. The Group has Board representation in this company and the Group's shareholding also provides it with voting rights. However, the Group does not consider NARTA NZ Limited to be an associate requiring accounting under the equity method. Purchases through this buying group are settled directly with the suppliers concerned on normal commercial terms as are the rebates which accrue as a result of these transactions. The Group also received income as a member from this company totalling \$0.1million for the six months ended 31 October 2016 (2015 \$0.1million). The amount owing to the Group at 31 October was \$0.4million (2015 \$0.5million).

Directors received Director's Fees and dividends in relation to their beneficially held shares as detailed below:

	6 MONTHS ENDED 31 OCTOBER 2016		6 MONTHS ENDED 31 OCTOBER 2015	
	Directors' Fees (\$000)	Dividends (\$000)	Directors' Fees (\$000)	Dividends (\$000)
Executive Directors				
C D Boyce	45	41	45	41
Non Executive Directors				
J A Dobson	34	6	34	6
G R Rohloff	26	-	26	-
S M Henderson	26	0.8	26	-
T D Allison	24	-	-	-
	155	47.8	131	47

13) Contingent Liabilities

The Group has contingent liabilities of \$nil at 31 October 2016 (2015 \$nil).

14) Events After Balance Date

On 20 December 2016 the Directors announced to the NZX that they propose to pay a dividend of 1.0 cent per share fully imputed on 10 February 2017 (2016 1.0 cent unimputed).

COMPANY DIRECTORY

DIRECTORS AND OFFICERS

Chairman

Craig David Boyce

Deputy Chairman

John Allen Dobson

Directors

Gary Raymond Rohloff

Sheena Moana Henderson

Tony Donald Allison

Chief Executive Officer

Roy James Campbell

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AUDITORS

KPMG

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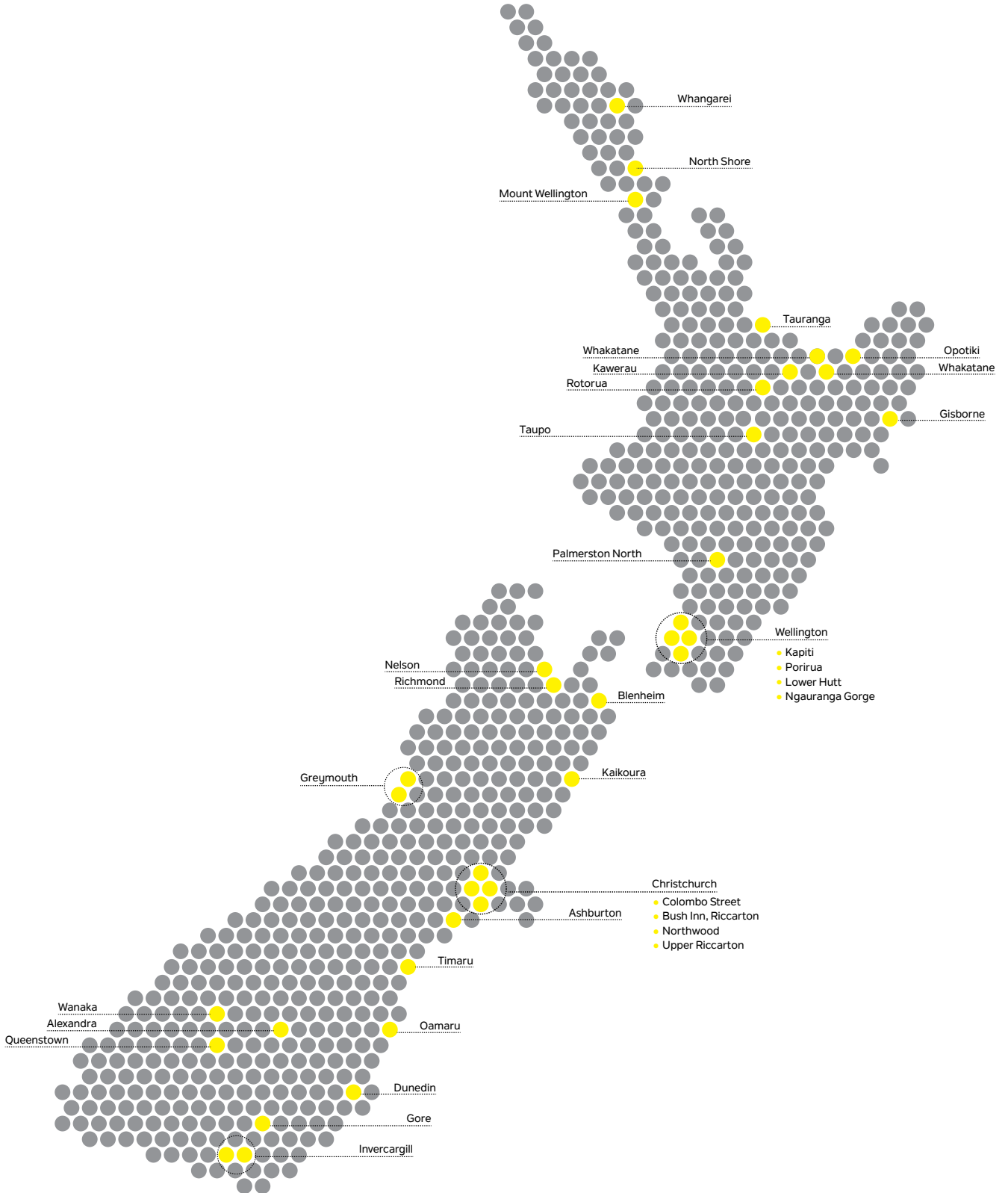
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STORE LOCATIONS





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