Smiths City Group

Half Yearly Report

October 2013

Contents

Company Profile

Corporate Structure

Smiths City Group Limited, based in Christchurch, is listed on the New Zealand Stock Exchange and has approximately 1,450 shareholders, 98% of whom are resident in New Zealand.

It is the parent of a number of subsidiary registered companies covering the range of business activities that the company engages in.

The Group was founded in Christchurch in 1918 and continues to occupy the same site in Colombo Street.

The Group is active in three complementary industry segments – retail, property and consumer finance. It employs approximately 624 full time and 76 part time staff.

Retail

Brands

The Group recognises the importance of customer loyalty and market share, and focuses on achieving these through providing quality brands and outstanding customer service in-store and in the customer's home.

The Group strongly supports some of New Zealand's best known brands including Fisher & Paykel, Sleepyhead and Cavalier Bremworth, along with international brands such as L G Electronics, Beko, Haier, Samsung, Panasonic, Hewlett Packard, Acer and Electrolux.

The Group's own retail brands of Smiths City, Powerstore and L V Martin are widely recognised in the New Zealand market and in the retail industry.

The Customer Experience

The customer experience is paramount in retail and the Group will continue to offer a 'full service' retail experience by providing quality goods, outstanding in-store service from knowledgeable sales staff, home delivery and installation, and flexible finance options provided through the Group's own finance company.

Lifestyle Stores – Smiths City

Smiths City is the largest and oldest brand in the Group providing approximately 75% of the Group's retail turnover. The Smiths City chain retails kitchen and laundry appliances, consumer electronics, indoor and outdoor furnishings, bedding, heating and flooring products and also includes sports departments in many of its stores.

The chain comprises 17 stores in the South Island and 10 in the North Island, all trading under the Smiths City name. There are also four Clearance Centres retailing a full range of affordable new product together with used and second hand items and two high-end furniture retail stores trading in Christchurch and Queenstown under the brand Furniture Concepts.

An experienced and focused purchasing and marketing team has resulted in Smiths City having significant market share in those product categories identified as strategically important.

In addition to sourcing furniture from New Zealand manufacturers and distributors, the company operates a substantial import program handling in excess of 720 containers per annum through its national Distribution Centre located in Christchurch.

Specialist Appliance Chain – Powerstore and L V Martin

The Group has operated a South Island chain of appliance only stores since 1997 trading as Powerstore. L V Martin, a Wellington based specialist appliance chain, was acquired from the Martin family in 2004.

The L V Martin brand is an institution in the Wellington region having been a household name over the past 75 years. Throughout its history L V Martin has built an enviable reputation for its unwavering attention to after sales service, and they have built a strong customer base recognising the value of expert advice, trust and service.

The appliance chain sells a full range of kitchen appliances, home entertainment and computer products.

The chain adds scale to the Group's appliance buying and provides a point of difference to the larger format department stores, who sell similar products in the midst of other product ranges. The appliance stores combine excellent store layout and staff with an outstanding level of product knowledge leading to a superior instore shopping experience.

On-Line Selling

The use of the internet is widely recognised as a developing medium for retail and the Group regards the web as an important tool for sales growth in the future. L V Martin, Smiths City and Powerstore all have fully functioning websites retailing a large range of their respective instore products.

The Group is pleased with the progress made to date in its multi-channel offering and continues to invest in this area.

Appliance Servicing - Alectra

Alectra operates from six locations across New Zealand and provides a valuable component of the 'full service retail' model. Originally a service arm of the retail stores providing repairs and installation support for kitchen appliances, Alectra has expanded into a separate business unit and added electrical wiring, gas fitting, plumbing, structural cabling and maintenance and installation of home heating products to its portfolio of services.

Alectra has built a reputation for providing professional and quality work and services a large customer base including many outside the Group's own retail network.

Finance

The finance business of the Group is divided into three parts – point-of-sale finance through secured fixed instalment or revolving credit customer accounts; the provision of unsecured personal loans to customers with a proven credit history; and a small trade finance ledger to businesses where the Group sees an opportunity to add value.

As at 31 October 2013 the consumer finance ledger value was approximately $77.4million. There were approximately 65,000 active accounts at that time.

The ledger is funded through a bulk funding facility and, consequently, does not raise money from the general public.

The Group's management and day-to-day control of the consumer finance ledger gives the retail brands a point of difference in the market and contributes to the value added by the full service retail model.

Property

Prime locations and superior store presentation are critical to the Group's success.

The Group continues to place strategic importance on retaining ownership of its key Colombo Street, Christchurch site. The retail and administration buildings were substantially damaged in the February 2011 earthquake. By November 2011 part of the retail store had been repaired and trading commenced in a smaller footprint than pre-earthquake.

The Group has completed a design that will increase the footprint very close to pre-earthquake with work on this anticipated to commence early/mid 2014. It is also reviewing options for the Group Administration office which is, at this time, continuing to work from the Disaster Recovery premises on the outskirts of Christchurch.

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

Associate Company

The Group owns the Bauer brand of bicycles. As a key part of its distribution strategy for this brand the Group owns 30% of Adventure Brands. It is an importer and wholesaler of bicycles and fitness equipment.

Appliance Buying

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

Directors' Report

Summary Of Financial Performance

The Directors of Smiths City Group Limited, the Christchurch based retailer, are pleased to announce an operating surplus after taxation for the six months to October 2013 of $1.903million compared with $1.687million last year – an increase of 12.8%.

Operating revenues for the six months were $108.504million – down 1.1% on previous year of $109.675million.

The summary of consolidated results is as follows:

	6MTHS 31.10.13	6MTHS 31.10.12	%INC /DEC
REVENUE	**108,504**	**109,675**	**-1.1%**
Trading Profit	**2,729**	**2,422**	**+12.8%**
Other Income	4	3	
Group Interest Paid (Excluding Smithcorp)	(633)	(703)	
Results From Operating Activities	2,100	1,722	+22.0%
Sale of Profit/(Loss) From Associate	-	(35)	
Profit Before Taxation	**2,100**	**1,687**	**+24.5%**
Deferred Taxation	*(197)	-	
Profit For The Period	**1,903**	**1,687**	**+12.8%**

* **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 and the amounts used for taxation purposes together with 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 $10.8million, hence no income tax is payable.**

The six months to 31 October has seen retail trading conditions remain competitive with prices – particularly in consumer electronic products – under pressure, margins squeezed and property costs continuing to increase.

The 24.5% increase in profit before taxation has been a result of the company managing these conditions effectively while retaining the majority of the benefits of the restructured financing arrangements introduced towards the end of the prior financial year.

Dividend

The Directors have declared an unimputed half year dividend of 1.0cent per share (last year 1.0cent) to be paid on Friday 14th February 2014.

For the purposes of the dividend the share register will close at 5.00pm on Friday 7th February and reopen at 9.00am on the Monday 10th February 2014.

Trading

Management has continued to concentrate on improving its performance in those areas considered critical to ensure success in what continues to be a competitive retail environment.

In particular over the 2013 calendar year this has involved:

- Having aggressive and flexible sales and promotional activity designed to protect market share in established markets and to improve sales in those products yielding the highest returns.
- Striving to improve all aspects of customer service including product selection on a store-by-store basis.
- Managing stock, debtors and cash to maximum efficiency.
- Improving the non bricks and mortar offering from the Group.
- Continuing to support the retail operation with innovative and profitable finance offerings through Smithcorp Finance.

From a geographic viewpoint in Christchurch the rebuild, whilst gathering momentum now, has been slower than expected and our business has been affected by competitors that have reopened. Outside of Christchurch rural South Island has been strong, results are improving in Wellington and are now in line with budget, whilst the upper North Island economy continues to be flat.

By product we continue to make strong gains in our flooring, whiteware and bedding operations. However, the appliance market continues to face tough times particularly in the consumer electronics area where this Christmas we have seen branded 32″ televisions advertised at $399 and 50″ televisions at $699!

The company has continued the development of its on-line and commercial presence and experienced good sales increases in both areas.

Looking ahead to 2014 and beyond the Board remains committed to achieving profitable sales growth both from its existing store-base and the adding of new stores to the Group.

In order to better prepare the Group to take advantage of such opportunities the Board, during 2013, changed its management organisation structure from one reflecting brand position to one reflecting its operations. It did this by changing from having General Managers for each chain (Smiths City, Powerstore and L V Martin) to having two roles – General Manager Merchandise and General Manager Operations.

Martin Simcock – previously General Manager Smiths City – has taken up the role of General Manager Merchandise and Steve Salmon has been recruited to the position of General Manager Operations. Steve brings extensive leadership and retail ability from his most recent role as Chief Executive Officer Guthrie Bowron and previous senior roles within the Briscoes Group.

Both roles report to Managing Director Rick Hellings.

Finance Company

Ownership of the finance company, Smithcorp Finance, gives the company strategic advantages. Smithcorp is a key part of promotional activity and our customer loyalty program.

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 of immense benefit to the wider Group.

Colombo Street Property

The rebuild of the Colombo Street property has been slower than anticipated but the retail store repairs are expected to be completed in the second half year. Plans for the administration premises are advancing but have not been given the same priority as the retail operation. The Board expect to finalise plans in this area by mid 2014.

Outlook

Looking ahead the company does not expect to see any significant change in the retail environment and is planning accordingly. Growth in sales will come in Christchurch as the residential rebuild gains momentum and by expanding our retail presence in the North Island. Growth in margins will come from targeting higher margin products and controlling costs in retail is a necessity.

Our People; Our Suppliers; Our Customers

We would like to acknowledge the efforts of all our staff, our suppliers, insurance representatives and, not least, our customers and shareholders for their continued support of the company.

Dated 18 January 2014

C D BOYCE	**J A DOBSON**
CHAIRMAN	**DEPUTY CHAIRMAN**

Financial Information

Smiths City Group Limited

Unaudited Consolidated Income Statement

For The Six Months To 31 October 2013

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)	AUDITED FULL YEAR 30.4.13 ($000)
Revenue	**108,504**	109,675	222,543
Trading Profit	**2,729**	2,422	7,683
Other Income	**4**	3	12
Group Interest Paid (Excluding Smithcorp)	**(633)**	(703)	(1,368)
Results From Operating Activities	**2,100**	1,722	6,327
Share of Profit/(Loss) of Equity Accounted Entities	**-**	(35)	(35)
Profit Before Tax	**2,100**	1,687	6,292
Deferred Taxation	**(197)**	-	(910)
Profit for the Period	**1,903**	1,687	5,382
Earnings Per Share For Profit Attributable To Equity Holders (cents)	**3.61**	3.20	10.21

Unaudited Consolidated Statement

Of Comprehensive Income

For The Six Months To 31 October 2013

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)	AUDITED FULL YEAR 30.4.13 ($000)
Profit For Period	**1,903**	1,687	5,382
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	**327**	72	(70)
Cash Flow Hedges – Deferred Tax Impact	**(92)**	(20)	19
Total Other Comprehensive Income	**235**	52	(51)
Total Comprehensive Income For The Period Attributable To Members Of The Company	**2,138**	1,739	5,331

Unaudited Consolidated Statement Of Movements In Equity For The Six Months To 31 October 2013

	SHARE CAPITAL ($000)	REVALUATION RESERVES ($000)	HEDGING RESERVES ($000)	OTHER RESERVES ($000)	RETAINED EARNINGS ($000)	TOTAL EQUITY ($000)
Balance 1 May 2012	10,652	2,280	(329)	94	30,173	42,870
Profit For The Period	-	-	-	-	1,687	1,687
Cash Flow Hedges – Fair Value Gains (Losses) Taken To Cash Flow Hedge Reserve	-	-	72	-	-	72
Cash Flow Hedges - Deferred Tax Impact	-	-	-	-	(20)	(20)
Total Comprehensive Income For Period	-	-	72	-	1,667	1,739
Subtotal	10,652	2,280	(257)	94	31,840	44,609
Dividends Paid	-	-	-	-	(1,319)	(1,319)
Balance 31 October 2012	**10,652**	**2,280**	**(257)**	**94**	**30,521**	**43,290**
Profit For The Period	-	-	-	-	3,696	3,696
Cash Flow Hedges – Fair Value Gains (Losses) Taken To Cash Flow Hedge Reserve	-	-	(142)	-	-	(142)
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	40	40
Total Comprehensive Income For Period	-	-	(142)	-	3,736	3,594
Subtotal	10,652	2,280	(399)	94	34,257	46,884
Dividends Paid	-	-	-	-	(528)	(528)
Balance 30 April 2013	**10,652**	**2,280**	**(399)**	**94**	**33,729**	**46,356**
Profit For The Period	-	-	-	-	1,903	1,903
Cash Flow Hedges – Fair Value Gains (Losses) Taken To Cash Flow Hedge Reserve	-	-	327	-	-	327
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	(92)	(92)
Total Comprehensive Income For Period	**-**	**-**	**327**	**-**	**1,811**	**2,138**
Subtotal	**10,652**	**2,280**	**(72)**	**94**	**35,540**	**48,494**
Dividends Paid	**-**	**-**	**-**	**-**	**(1,317)**	**(1,317)**
Balance 31 October 2013	**10,652**	**2,280**	**(72)**	**94**	**34,223**	**47,177**

Unaudited Consolidated Balance Sheet

As At 31 October 2013

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)	AUDITED FULL YEAR 30.4.13 ($000)
CURRENT ASSETS			
Cash And Cash Equivalents	**1,234**	2,280	644
Smithcorp Finance Cash and Cash Equivalents	**377**	1,478	814
Trade And Other Receivables	**12,823**	11,363	9,123
Smithcorp Finance Receivables – Current Portion	**48,157**	52,685	50,401
Inventories	**41,983**	41,708	38,969
TOTAL CURRENT ASSETS	**104,574**	109,514	99,951
OTHER ASSETS			
Property, Plant And Equipment	**16,817**	17,005	16,240
Intangible Assets	**1,645**	2,154	1,875
Smithcorp Receivables – Term Portion	**30,952**	33,156	32,278
Investments in Equity Accounted Investees	**450**	532	490
Deferred Taxation	**3,022**	4,181	3,311
TOTAL NON CURRENT ASSETS	**52,886**	57,028	54,194
TOTAL ASSETS	**157,460**	166,542	**154,145**
CURRENT LIABILITIES			
Bank Overdraft	**1,349**	1,493	--
Secured Borrowings	**13,421**	10,323	12,254
Trade Payables and Provisions	**25,513**	25,942	22,634
TOTAL CURRENT LIABILITIES	**40,283**	37,758	34,888
SMITHCORP FINANCE NON CURRENT BORROWINGS	**59,900**	73,775	62,800
NON CURRENT LIABILITIES			
Secured Borrowings	**10,100**	11,719	10,101
TOTAL LIABILITIES	**110,283**	123,252	**107,789**
NET ASSETS	**47,177**	43,290	**46,356**
SHAREHOLDERS' FUNDS			
Share Capital Reserves	**10,652**	10,652	10,652
Revaluation Reserve	**2,280**	2,280	2,280
Other Reserves	**22**	(163)	(305)
Retained Earnings	**34,223**	30,521	33,729
TOTAL EQUITY	**47,177**	43,290	**46,356**
Net Tangible Assets Per Share (cents)	**86.42**	78.07	84.42

ANALYSIS SMITHCORP FINANCE ASSETS			
Smithcorp Finance Cash and Cash Equivalents	**377**	1,478	814
Smithcorp Finance Receivables – Current Portion	**48,157**	52,685	50,401
Smithcorp Finance Receivables – Term Portion	**30,952**	33,156	32,278
TOTAL SMITHCORP FINANCE ASSETS	**79,486**	**87,319**	**83,493**
Smithcorp Finance Borrowings	**59,900**	73,775	62,800
Investment in Finance Company	**19,586**	13,544	20,693

Unaudited Consolidated Statement Of Cash Flows

For The Six Months To 31 October 2013

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)	AUDITED FULL YEAR 30.4.13 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers	**96,268**	**96,636**	203,512
Insurance Receipts	**4**	**974**	1,320
Interest Received – Smithcorp	**3,405**	**3,269**	6,630
Interest Received – Other	**14**	**51**	92
Dividend/Other Income Received From Associate	**40**	**-**	42
Total Cash Flows From Operating Activities	**99,731**	**100,930**	211,596
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees	**(98,273)**	**(98,958)**	(202,524)
Interest Paid – Smithcorp	**(1,445)**	**(2,905)**	(7,008)
Interest Paid - Other	**(633)**	**(703)**	(1,388)
Total Cash Flows Applied To Operating Activities	**(100,351)**	**(102,566)**	(210,920)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	**(620)**	**(1,636)**	**676**
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayments of Advances by Customers	**3,570**	**992**	4,154
Insurance Receipts for Property	**-**	**-**	5,489
Total Cash Flows From Investing Activities	**3,570**	**992**	9,643
CASH WAS APPLIED TO:			
Advances to Customers	**-**	-	-
Purchase of Property, Plant & Intangibles	**(1,095)**	**(1,062)**	(1,642)
Total Cash Flows Applied to Investing Activities	**(1,095)**	**(1,062)**	(1,642)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	**2,475**	(70)	**8,001**
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts of Advances to Fund Finance Receivables	**-**	**-**	-
Receipt of Borrowings to Fund Working Capital	**1,166**	**2,684**	2,997
Total Cash Flows From Financing Activities	**1,166**	**2,684**	2,997
CASH WAS APPLIED TO:			
Repayments of Advances to Fund Finance Receivables	**(2,900)**	(730)	(4.405)
Increase Equity in Finance Company	**-**	**-**	(7,300)
Pay Dividend	**(1,317)**	**(1,319)**	(1,847)
Total Cash Flows Applied To Financing Activities	**(4,217)**	**(2,049)**	(13,552)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(3,051)**	635	**(10,555)**
Net Increase (Decrease) in Cash Held	**(1,196)**	**(1,071)**	(1,878)
Cash at Beginning of Period	**1,458**	**3,336**	3,336
Cash at End of Period	**262**	**2,265**	1,458
RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES			
Profit Per Accounts After Earnings From Associate and Taxation	**2,100**	**1,687**	6,292
Less Insurance Receipts for Property Treated as Investing Activities	**-**	**-**	(5,489)
Plus Dividend/Other Income Received From Associate	**40**	**-**	42
Add/(Deduct) Share of Loss (Earnings) From Associate	**-**	**35**	35
Add Depreciation, Amortisation and Impairment	**748**	**1,179**	2,803
	2,888	**2,901**	3,683
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
Add Decrease (Deduct Increase) Receivables (excl Property Held For Sale)	**(3,700)**	**(3,260)**	(1,020)
Add Decrease (Deduct Increase) Inventories	**(3,014)**	**(1,811)**	928
Add Increase (Deduct Decrease) Accounts Payable & Provisions	**3,206**	**534**	(2,915)
Movements in Working Capital	**(3,508)**	**(4,537)**	(3,007)
NET CASH INFLOW (OUTFLOW) FROM OPERATIONS	**(620)**	**(1,636)**	**676**

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 2013 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) 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 2013 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 2013.

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 2013 as described in those annual financial statements.

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 2013. Refer Note 9 for further information in relation to the valuation of land and buildings.

f) Standards and Interpretations

NZIAS 1: Amendments to Presentation of Items of Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012) was applied during the period. The amendment requires entities to separate items presented in other comprehensive income, based on whether they may be recycled to profit or loss in future.

The following new financial reporting standards and amendments to standards are effective from 1 January 2013 and have been applied in preparing these financial statements. The adoption of these standards have not had a material impact on the Group.

- **NZ IFRS 10 Consolidated Financial Statements**
- **NZ IAS 27 Separate Financial Statements**
- **NZ IAS 28 Investments in Associates and Joint Ventures**
- **NZ IFRS 10 replaces NZ IAS 27 Consolidated and Separate Financial Statements and NZ SIC-12 Consolidation - Special Purpose Entities.** It has been issued concurrently with:
  - **NZ IFRS 11 Joint Arrangements;**
  - **NZ IFRS 12 Disclosure of Interests in Other Entities;**
  - **NZ IAS 27 (revised 2011)** - this included amendments for the issue of NZ IFRS 10, but retains current guidance for separate financial statements
  - **NZ IAS 28 (revised 2011)** - this has been amended for conforming changes based on the issue of NZ IFRS 10 and NZ IFRS 11.

The objective of NZ IFRS 10 is to establish control as a single basis for consolidation for all entities, regardless of the nature of the investee. The definition of control includes three elements - power over an investee, exposure or rights to variable returns of the investee, and the ability to use power over the investee to affect the investor's returns.

NZ IFRS 13 Fair Value Measurement
It defines fair value and provides a single source of fair value measurement and disclosure requirements for use across all NZ IFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by another NZ IFRS. NZ IFRS 13 applies prospectively for annual periods beginning on or after 1 January 2013. NZ IAS 34 requires particular NZ IFRS13 disclosures in the interim financial statements which are provided in Notes 7 and 8.

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

3) 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 31.10.13				
Retail Activities	**103,373**	**-**	**103,373**	**306**
Finance Business	**5,131**	**-**	**5,131**	**1,838**
Property Activities	**4**	**536**	**540**	**349**
Parent Company	**-**	**-**	**-**	**(393)**
Total For Reportable Segments	**108,508**	**536**	**109,044**	**2,100**
Share of Profits of Equity Accounted Entities	**-**	**-**	**-**	**-**
Consolidated Profit Before Taxation	**108,508**	**536**	**109,044**	**2,100**

	REVENUE FROM EXTERNAL CUSTOMERS ($000)	INTER SEGMENT REVENUE ($000)	TOTAL SEGMENT REVENUE ($000)	SEGMENT PROFIT (LOSS) ($000)
UNAUDITED 6 MONTHS ENDED 31.10.12				
Retail Activities	**104,139**	**-**	**104,139**	**1,015**
Finance Business	**5,536**	**-**	**5,536**	**879**
Property Activities	**3**	**536**	**539**	**40**
Parent Company	**-**	**1,400**	**1,400**	**(212)**
Total For Reportable Segments	**109,678**	**1,936**	**111,614**	**1,722**
Share Of Losses Of Equity Accounted Entities	**-**	**-**	**-**	**(35)**
Consolidated Profit Before Taxation	**109,678**	**1,936**	**111,614**	**1,687**

Other Segment Information

	RETAIL ACTIVITIES ($000)	FINANCE ACTIVITIES ($000)	PROPERTY ACTIVITIES ($000)	TOTAL ($000)
UNAUDITED 6 MONTHS ENDED 31.10.13				
Assets	**64,330**	**79,109**	**14,022**	**157,461**
Liabilities	**(40,284)**	**(59,900)**	**(10,100)**	**(110,284)**
Equity	**(24,046)**	**(19,209)**	**(3,922)**	**(47,177)**
Acquisitions Of Property, Plant, Equipment, Intangibles And Investments	**885**	**38**	**172**	**1,095**
Depreciation And Amortisation	**(632)**	**(66)**	**(50)**	**(748)**
Interest Expense	**(350)**	**(1,978)**	**(283)**	**(2,611)**
Interest Revenue	**-**	**5,131**	**-**	**5,131**
UNAUDITED 6 MONTHS ENDED 31.10.12				
Assets	**65,273**	**87,319**	**13,950**	**166,542**
Liabilities	**(38,369)**	**(72,444)**	**(12,439)**	**(123,252)**
Equity	**(26,904)**	**(14,875)**	**(1,511)**	**(43,290)**
Acquisitions Of Property, Plant, Equipment, Intangibles And Investments	**1,008**	**54**	**-**	**1,062**
Depreciation And Amortisation	**1,035**	**94**	**50**	**1,179**
Interest Expense	**(294)**	**(3,653)**	**(409)**	**(4,356)**
Interest Revenue	**-**	**5,536**	**-**	**5,536**

4) Revenue

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)
Retail Sales	**103,373**	104,139
Interest Income On Smithcorp Finance Receivables Measured At Amortised Cost	**4,823**	5,177
Other Finance Income	**286**	298
Interest Income On Bank Deposits	**22**	61
	108,504	109,675

5) Expenses By Nature

	UNAUDITED 6 MONTHS 31.10.13 ($000)	UNAUDITED 6 MONTHS 31.10.12 ($000)
Purchases Net of Rebates	**(69,395)**	(71,432)
Movement in Inventory	**(3,014)**	(1,810)
Operating Lease Rental Expense	**(6,899)**	(6,409)
Employee Benefits	**(16,823)**	(16,413)

6) Other Income

Rental Income From Investment Properties	**4**	3

7) Smithcorp Finance Receivables

	2013			2012		
	FIXED INSTALMENT ($000)	REVOLVING CREDIT ($000)	TOTAL ($000)	FIXED INSTALMENT ($000)	REVOLVING CREDIT ($000)	TOTAL ($000)
Gross Finance Receivables	**88,561**	**21,980**	**110,541**	99,950	20,508	120,458
Gross Finance Receivables Due From Adventure Brands Limited	**-**	**1,099**	**1,099**	-	1,426	1,426
Provision For Unearned Income	**(31,261)**	**-**	**(31,261)**	(34,720)	-	(34,720)
	57,300	**23,079**	**80,379**	65,230	21,934	87,164
Less Impairment Allowances	**(775)**	**(495)**	**(1,270)**	(848)	(475)	(1,323)
	56,525	**22,584**	**79,109**	64,382	21,459	85,841

The fair value of Smithcorp Finance receivables takes into account anticipated future income for all finance receivables made on deferred interest terms whilst also estimating the cost of instalment credit receivables made on deferred interest terms. Instalment credit receivables expected to have a non interest bearing period are discounted to their net present value using a market discount rate (refer Note 8). This discount rate is continually reviewed by the Directors. As part of the calculation the probability that contracts will enter an extended interest bearing period is assessed based on historical data.

8) Financial Instruments

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 2013.

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:

	2013	2012
Derivatives Held For Risk Management	**2.95-3.32%**	2.85% - 3.73%
Finance Receivables	**12%**	12%

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 2013

	Level 1	Level 2	Level 3	Total
Other Investments, Including Derivatives (Non Current):				
Interest Rate Swaps Used For Hedging	-	82	-	82
Other Investments, Including Derivatives (Current):	-	-	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	**-**	**82**	**-**	**82**
Trade and Other Payables (Non Current):				
Interest Rate Swaps Used for Hedging	-	(15)	-	(15)
Trade and Other Payables (Current):				
Forward Exchange Contracts Used For Hedging	-	(139)	-	(139)
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	**-**	**(154)**	**-**	**(154)**

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.

9) Property, Plant And Equipment

Land and buildings are included in the financial statements at 30 April 2013 at independent valuation dated 22 June 2012 prepared by Colliers Valuation. Refer Note 10 for further information on the Colombo Street property.

10) Capital Commitments

The Group previously indicated it intends to complete the repair of the Colombo Street property. Stage 2 of the project, to complete the repairs and extend the retail floor space into the previous despatch areas on the Colombo Street property are estimated to cost $3.4million. The Group has now contractually committed to this work. Apart from this there are no other significant capital commitments (2012 $25,000).

11) Contingent Liabilities

The Group has contingent liabilities of $nil at 31 October 2013 (2012 $nil).

The parent company has, under certain conditions, guaranteed up to $550,000 of borrowings by Adventure Brands Limited, a 30% owned associate, from the ANZ Bank of New Zealand.

12) Events After Balance Date

On 20 December 2013 the Directors announced to the NZX that they propose to pay a dividend of 1.0cent per share with no imputation credits on 14 February 2014 (2013 1.0cent).

Company Directory

Directors and Officers

Chairman	Craig David Boyce
Deputy Chairman	John Allen Dobson
Directors	Gary Raymond Rohloff Sarah Christine Ottrey Richard Hellings
Managing Director	Richard Hellings

Registered Office

550 Colombo Street
Christchurch 8011

Bankers

ANZ Bank of New Zealand
PO Box 220
Christchurch 8011

Auditors

KPMG
Level 3, 62 Worcester Boulevard
PO Box 1739
Christchurch 8011

Share Registrars

Link Market Services Limited

Level 16, Brookfields House

19 Victora Street West

P O Box 91976

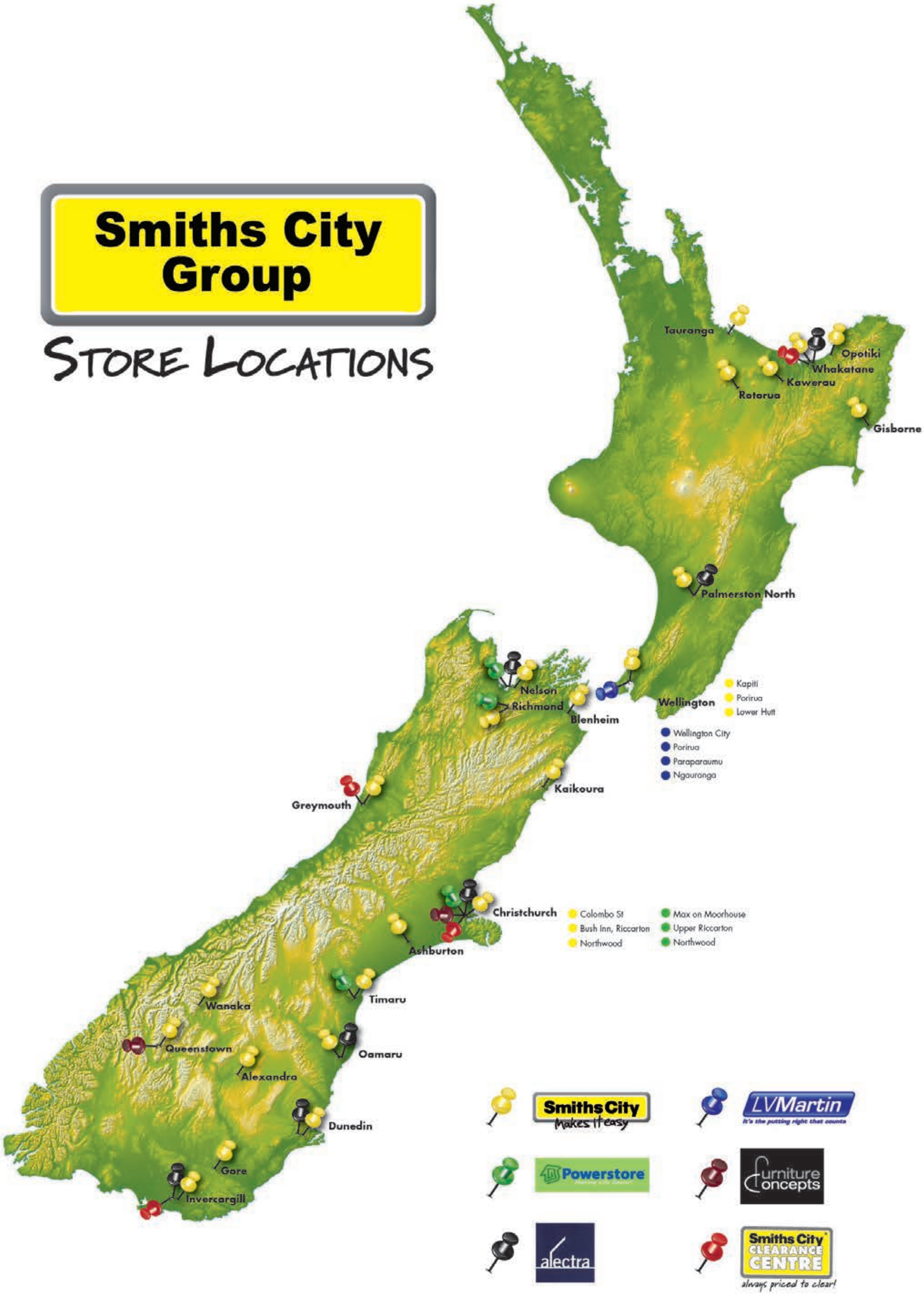
Auckland 1142

Telephone 09 375 5990

Address for Communication

POSTAL	PO Box 2343, Christchurch
TELEPHONE	03 983 3000
FACSIMILE	03 983 3031
EMAIL	group@smithscity.co.nz
WEBSITE	www.smithscitygroup.co.nz

Store Locations 2013



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It's the putting right that counts