Smiths City Group

Half Yearly Report

October 2014

Contents

Company Profile

Corporate Structure

Smiths City Group Limited was founded in 1918, is based in Christchurch and is listed on the New Zealand Stock Exchange. It has just over 1,400 shareholders.

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

The Group is active in three complementary industry segments – retail, consumer finance and property. It employs approximately 630 full-time and 70 part-time staff.

Retail

Brands

Smiths City Group operates in the furnishings, electronics and sporting goods retail sectors.

As well as operating bricks and mortar retail stores it also sells product through its websites and into the commercial market.

Recognising that providing a superior customer buying experience is paramount in maintaining customer loyalty in retail the Group offers a 'full service' retail experience based on providing:

- quality branded products sourced from reputable suppliers both within New Zealand and, where the customer is best served by doing so, overseas.

  The Group maintains strong relationships with 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.

- outstanding in-store presentation and professional service from knowledgeable sales staff.

- a professional in home delivery and installation service, and

- the provision of flexible finance options through the Group's own finance company.

Retail Stores

The Group's main retail brands are Smiths City, Powerstore, L V Martin and Furniture Concepts.

The Smiths City chain of retail stores is the largest brand in the Group providing approximately 75% of the Group's retail turnover. It comprises 17 stores in the South Island and 10 in the North Island, all trading under the Smiths City brand.

All stores stock and sell kitchen appliances, consumer electronics, indoor and outdoor furnishings, bedding, heating and flooring products. Sports departments are included in many of its stores.

The Group also operates a seven store appliance only chain of stores under the Powerstore brand in Timaru, Christchurch and Nelson and L V Martin in Wellington.

The appliance chain sells a full range of kitchen appliances, home entertainment and computer products. It 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 Smiths City and Appliance Chain retail operations are supported by four Clearance Centres retailing a full range of affordable new product together with used and second hand items and eight service operations situated in strategic locations across New Zealand. Both provide a valuable component of the 'full service retail' model.

Furniture Concepts consists of two stores – Christchurch and Queenstown – and sells furniture and accessories into the upper end furniture market. This is a relatively new operation with significant growth targeted over the next three years.

On-line Sales

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.

The Smiths City website includes a significant proportion of the products the company sells and includes a simple to use on-line purchasing process. As a result it not only contributes sales but is also used as a reference tool for customers and staff alike.

The appliance website is based on an older platform than the Smiths City site but will be moved to the same technology by mid 2015 giving operational synergies and enhancing what will be a key strategic tool for the Group.

Commercial Division

The Commercial business is relatively early in its lifecycle providing product into the business and home builders' market. The division's immediate focus is to maximise opportunities through the Christchurch rebuild and going forward to maximise the benefits from the "in home design" service. This division boasts an extensive showroom and is based at the Watts Road, Christchurch, site.

Consumer 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 2014 the consumer finance ledger value was approximately $70million and borrowing against the portfolio was approximately $58million. There were approximately 59,000 active accounts at that time.

The ledger is funded through a bulk funding facility with ANZ Bank New Zealand Limited 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 real point of difference from the Group's competitors 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 success of any retail organisation.

The Group continues to place strategic importance on retaining ownership of its key Colombo Street, Christchurch site. Prior to the earthquakes in 2010 and 2011 this property housed the Group's largest retail store and its administration centre.

The buildings were substantially damaged in the February 2011 earthquake resulting in the administration centre being relocated to Watts Road, Sockburn, Christchurch. Stage 1 of the repair to the retail building was completed in November 2011 and Stage 2 was completed in October 2014. This increased the retail footprint back to pre-earthquake levels and provides an exceptional retail experience for its customers.

The Group is reviewing options for the relocation of the administration centre which continues to operate from premises in Watts Road, Sockburn, Christchurch.

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

Subsidiary Company

The Group owns the Bauer brand of bicycles. As a key part of its distribution strategy for this brand the Group owns 65% of Adventure Brands. It is an importer and wholesaler of bicycles and fitness equipment.

Appliance Buying

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.

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 2014 of $4.266million compared with $1.903million last year – an increase of 124%.

Operating revenues for the six months were $109.5million – up 0.9% on the previous year of $108.5million.

The summary of consolidated results is as follows:

	6MTHS 31.10.14	6MTHS 31.10.13	%INC /DEC
REVENUE	**109,473**	**108,504**	**+0.9%**
Trading Profit	**2,447**	**2,658**	**-7.9%**
Other Income**	2,875	172	+1571.5
Group Interest Paid (Excluding Smithcorp)	(880)	(730)	+20.5
Profit Before Taxation	**4,442**	**2,100**	**+111.5%**
Deferred Taxation	*(176)	*(197)	
Profit For The Period	**4,266**	**1,903**	**+124.1%**

* **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 $11.5million, hence no income tax is payable.**

** **Other income includes insurance proceeds of $2.875million received for the Colombo Street property. The costs associated with the Stage 2 rebuild have been added to the value of the property. This treatment is consistent with that applied last 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 13th February 2015.

For the purposes of the dividend the share register will close at 5.00pm on Thursday 5th February and reopen at 9.00am on the Monday 9th February 2015.

Trading

Retail conditions in the product sectors in which we operate continue to be very competitive with the larger industry players stimulating generally soft demand by reducing prices and continuing with aggressive promotions across the board. As a result our margins came under pressure.

Selling a range of both electrical and furnishing products within the Smiths City stores is seen as a key strategic advantage for the company over many of it's direct competitors. However, in the appliance retail industry the company does not have the same confidence in the ability of relatively small (under 800m2) appliance only stores to stock a sufficient range of electronic products to remain relevant from a consumer viewpoint and, hence, to consistently produce acceptable profit returns.

In the last 12 months the company closed two standalone appliance stores (Powerstore Invercargill and Powerstore, Riccarton, Christchurch) and in January also closed the Powerstore, Richmond store.

Within the Smiths City stores the Group will seek to increase profit by concentrating on increasing sales in furniture, bedding and kitchen appliances whilst reducing its exposure to less profitable product sectors.

Supporting this strategy in 2014 the Board was particularly pleased to complete the repair and successful re-opening of the "flag ship" Colombo Street store in October. This now brings the Christchurch business up to full strength.

The company continues to assess growth opportunities in the North Island – both from its existing stores and from opening new stores. As part of this process the company relocated both the Rotorua and Palmerston North stores to more improved locations in their respective cities at the same time putting increased floor space into those product sectors considered strategically important.

The net impact of these moves has seen retail sales in the six months remain static on the same period last year.

During 2014 the company invested significantly in the Smiths City on-line offering. An updated website was launched at the end of November with significantly more product featured and a much improved on-line purchasing process. As a result it will not only contribute increased sales to the Group but, more importantly, it will be used as a key reference tool for customers, as well as a major selling tool in-store.

The appliance chain website will be updated in the second half of the year with increased sales from that site anticipated to at least partially replace those lost through closing unprofitable stores. It will also reduce the overall cost per transaction of our appliance business.

Results from the finance operation – Smithcorp Finance – were again very positive. As at 31 October the consumer finance ledger stood at approximately $70million with around 59,000 active accounts. The ledger is funded through ANZ Bank New Zealand Limited and does not raise money from the general public.

The Board sees opportunities to further increase profits from this operation. A series of marketing initiatives to be introduced in the first quarter of 2015 are designed to increase the size of the ledger. As part of this process the Board has approved a change of name to Smiths City Finance Limited.

Directors and CEO

In November the company completed its search for a replacement for Ms Sarah Ottrey, who resigned in March 2014, and was delighted to announce the appointment to the Board of Ms Sheena Henderson.

The company also announced in November that long serving CEO/Managing Director Mr Rick Hellings would stand down from his position in 2015. This meant the company could undertake an orderly search for a replacement and, subsequently, appointed recruitment specialists EQI Global Executive Search and Recruitment company to undertake this task. Mr Hellings will remain with the company through the transition to a new appointment.

Colombo Street Property

Prior to the 2011 earthquakes the Colombo Street, Christchurch property housed the company's largest retail operation, as well as its main Administration Centre.

The property was substantially damaged in the earthquakes and the administration functions were shifted to the company's disaster recovery centre at Watts Road. In November 2011 the company reopened that portion of the retail showroom which could be temporarily repaired. At 30 April 2012 the property was revalued from $21million to $14million to reflect the fair value of the site at that time.

The final repairs to the Colombo Street retail store – which were effectively a rebuild of that part of the original store which sustained the most damage – were completed in late October 2014. This is now of a shape and layout far superior to that prior to the earthquake. Additional parking has been provided on the southern side of the building which makes parking for those coming from the eastern and southern sides of the city much more customer friendly.

The costs of these repairs have been added to the 2012 valuation and increased the book value as at 31 October to $16.6million. These costs were covered by insurance proceeds which have been credited to other income and explains the figure of $2.875million included in the Revenue Statement.

The Board has received an independent valuation of the property of $17.8million which reflects the quality of the building as it currently stands. The company is currently finalising the last of the costs associated with the repairs and is in negotiation with the insurer to determine its options for the remaining work to be done onsite including, but not limited to, whether to rebuild the Group administration centre.

Whilst any outstanding costs will be of a minor nature the Board will be in a much better position to determine the ongoing fair value of the property as at year end and will adjust the Balance Sheet valuation as at that date.

Outlook

The overall economic outlook is uncertain. Whilst Canterbury continues to show some growth the impact of the falling dairy pay out may have some effect on demand in the rural sector. Whilst we have not seen this yet our feeling is that large segments of the rural sector are better placed to handle these conditions than may have been the case in the past.

Our People; Our Suppliers; Our Customers

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

Dated 19 January 2015

C D BOYCE - CHAIRMAN   J A DOBSON - DEPUTY CHAIRMAN

Financial Statements
For The Six Months To 31 October 2014 (Unaudited)

The Interim Financial Statements presented are signed for and on behalf of the Board and were authorised for issue on the 22 December 2014.

C D BOYCE - CHAIRMAN

R HELLINGS – MANAGING DIRECTOR

Unaudited Consolidated Income Statement
For The Six Months To 31 October 2014

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)	AUDITED FULL YEAR 30.4.14 ($000)
Revenue	**109,473**	108,504	209,239
Trading Profit	**2,447**	2,658	5,607
Other Income	**2,875**	172	545
Group Interest Paid (Excluding Smithcorp)	**(880)**	(730)	(1,505)
Profit Before Tax	**4,442**	2,100	4,647
Deferred Taxation	**(176)**	(197)	(596)
Profit for the Period	**4,266**	1,903	4,051
Earnings Per Share For Profit Attributable To Equity Holders (Cents)	**8.52**	3.61	7.69

Unaudited Consolidated Statement Of Comprehensive Income
For The Six Months To 31 October 2014

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)	AUDITED FULL YEAR 30.4.14 ($000)
Profit For Period	**4,266**	1,903	4,051
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	**148**	327	110
Deferred Tax Impact Cash Flow Hedges – Fair Value Gain/(Losses) Taken to Cash Flow Hedge Reserve	**(40)**	(92)	(31)
Total Comprehensive Income For The Period	**4,374**	2,138	4,130
Attributable To:			
Equity Holders Of The Company	**4,595**	2,138	4,130
Minority Interests	(221)	-	-
	4,374	2,138	4,130

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

Unaudited Consolidated Statement Of Movements In Equity

For The Six Months To 31 October 2014

	SHARE CAPITAL ($000)	REVALUATION RESERVES ($000)	HEDGING RESERVES ($000)	OTHER RESERVES ($000)	RETAINED EARNINGS ($000)	TOTAL EQUITY ($000)
Balance 1 May 2013 (RESTATED)	10,652	2,280	(399)	94	27,729	**40,356**
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**	**29,540**	**42,494**
Dividends Paid	**-**	**-**	**-**	**-**	**(1,317)**	**(1,317)**
Balance 31 October 2013	**10,652**	**2,280**	**(72)**	**94**	**28,223**	**41,177**
Profit For The Period	-	-	-	-	2,148	2,148
Cash Flow Hedges – Fair Value Gains (Losses) Taken To Cash Flow Hedge Reserve	-	-	(217)	-	-	(217)
Cash Flow Hedges – Deferred Tax Impact	-	-	-	-	60	60
Total Comprehensive Income For Period	-	-	(217)	-	2,208	1,991
Non Controlling Interest in Subsidary	-	-	-	-	400	400
Subtotal	10,652	2,280	(289)	94	30,831	43,568
Dividends Paid	-	-	-	-	(526)	(526)
Balance 30 April 2014	**10,652**	**2,280**	**(289)**	**94**	**30,305**	**43,042**
Profit For The Period	**-**	**-**	**-**	**-**	**4,266**	**4,266**
Cash Flow Hedges – Fair Value Gains (Losses) Taken To Cash Flow Hedge Reserve	**-**	**-**	**148**	**-**	**-**	**148**
Cash Flow Hedges – Deferred Tax Impact	**-**	**-**	**-**	**-**	**(40)**	**(40)**
Total Comprehensive Income For Period	**-**	**-**	**148**	**-**	**4,226**	**4,374**
Subtotal	**10,652**	**2,280**	**(141)**	**94**	**34,531**	**47,416**
Dividends Paid	**-**	**-**	**-**	**-**	**(1,318)**	**(1,318)**
Balance 31 October 2014	**10,652**	**2,280**	**(141)**	**94**	**33,213**	**46,098**
Attributable to:						
Equity Holders of the Company	**10,652**	**2,280**	**(141)**	**94**	**33,034**	**45,919**
Minority Interests	**-**	**-**	**-**	**-**	**179**	**179**
	10,652	**2,280**	**(141)**	**94**	**33,213**	**46,098**

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

Unaudited Consolidated Balance Sheet

As At 31 October 2014

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)	AUDITED FULL YEAR 30.4.14 ($000)
CURRENT ASSETS			
Cash And Cash Equivalents	**1,295**	1,234	1,875
Smithcorp Finance Cash And Cash Equivalents	**629**	377	969
Trade And Other Receivables	**15,160**	12,823	12,252
Smithcorp Finance Receivables – Current Portion	**39,029**	42,157	42,646
Inventories	**45,034**	41,983	42,387
TOTAL CURRENT ASSETS	**101,147**	**98,574**	**100,129**
OTHER ASSETS			
Property	**16,631**	14,525	14,788
Intangible Assets	**1,717**	1,645	1,737
Plant And Equipment	**2,895**	2,292	2,665
Smithcorp Receivables – Term Portion	**29,991**	30,952	29,364
Investments	**12**	450	12
Deferred Taxation	**2,818**	3,022	3,034
TOTAL NON CURRENT ASSETS	**54,064**	**52,886**	**51,600**
TOTAL ASSETS	**155,211**	**151,460**	**151,729**
CURRENT LIABILITIES			
Bank Overdraft	**1,589**	1,349	-
Secured Borrowings	**13,112**	13,421	12,481
Trade Payables and Provisions	**26,112**	25,513	25,806
TOTAL CURRENT LIABILITIES	**40,813**	**40,283**	**38,287**
SMITHCORP FINANCE NON CURRENT BORROWINGS	**58,200**	59,900	60,300
NON CURRENT LIABILITIES			
Secured Borrowings	**10,100**	10,100	10,100
TOTAL LIABILITIES	**109,113**	**110,283**	**108,687**
NET ASSETS	**46,098**	**41,177**	**43,042**
SHAREHOLDERS' FUNDS			
Share Capital Reserves	**10,652**	10,652	10,652
Revaluation Reserve	**2,280**	2,280	2,280
Other Reserves	**(47)**	22	(195)
Retained Earnings	**33,034**	28,223	29,905
	45,919	**41,177**	42,642
Minority Interests	**179**	**-**	400
TOTAL EQUITY	**46,098**	**41,177**	**43,042**
Net Tangible Assets Per Share (Cents)	**78.87**	**68.44**	72.61

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

Unaudited Consolidated Statement Of Cash Flows

For The Six Months To 31 October 2014

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)	AUDITED FULL YEAR 30.4.14 ($000)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers	**101,036**	99,673	206,577
Insurance Receipts	**-**	4	-
Interest Received – Smithcorp	**3,508**	3,405	6,916
Interest Received – Other	**28**	14	27
Dividend/Other Income Received From Associate	**-**	40	-
Total Cash Flows From Operating Activities	**104,572**	103,136	213,520
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees	**(104,383)**	(101,220)	(206,488)
Interest Paid – Smithcorp	**(2,118)**	(1,978)	(2,882)
Interest Paid - Other	**(880)**	(730)	(1,300)
Total Cash Flows Applied To Operating Activities	**(107,381)**	(103,928)	(210,670)
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	**(2,809)**	**(792)**	**2,850**
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayments of Advances by Customers	**2,990**	3,570	4,669
Disposal of Property	**595**	-	-
Insurance Receipts for Property	**2,875**	172	545
Total Cash Flows From Investing Activities	**6,460**	3,742	5,214
CASH WAS APPLIED TO:			
Advances to Customers	**-**	-	-
Purchase of Property, Plant & Intangibles	**(3,373)**	(1,095)	(2,561)
Total Cash Flows Applied to Investing Activities	**(3,373)**	(1,095)	(2,561)
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	**3,087**	**2,647**	**2,653**
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts of Advances to Fund Finance Receivables	**-**	-	-
Receipt of Borrowings to Fund Working Capital	**631**	1,166	227
Total Cash Flows From Financing Activities	**631**	1,166	227
CASH WAS APPLIED TO:			
Repayments of Advances to Fund Finance Receivables	**(2,100)**	(2,900)	(2,500)
Pay Dividend	**(1,318)**	(1,317)	(1,844)
Total Cash Flows Applied To Financing Activities	**(3,418)**	(4,217)	(4,344)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	**(2,787)**	**(3,051)**	**(4,117)**
Net Increase (Decrease) in Cash Held	**(2,509)**	(1,196)	1,386
Cash at Beginning of Period	**2,844**	1,458	1,458
Cash at End of Period	**335**	**262**	2,844
RECONCILIATION OF NET PROFIT WITH CASH FLOW FROM OPERATING ACTIVITIES			
Profit Per Accounts After Earnings From Associate and Taxation	**4,442**	2,100	4,647
Less Insurance Receipts for Property Treated as Investing Activities	**(2,875)**	(172)	(545)
Plus Dividend/Other Income Received From Associate	**-**	40	-
Add Depreciation, Amortisation and Impairment	**725**	748	1,486
	2,292	2,716	5,588
ADD/(DEDUCT) MOVEMENTS IN WORKING CAPITAL:			
Add Decrease (Deduct Increase) Receivables (excl Property Held For Sale)	**(2,908)**	(3,700)	(2,662)
Add Decrease (Deduct Increase) Inventories	**(2,647)**	(3,014)	(3,418)
Add Increase (Deduct Decrease) Accounts Payable & Provisions	**454**	3,206	3,342
Movements in Working Capital	**(5,101)**	(3,508)	(2,738)
NET CASH INFLOW (OUTFLOW) FROM OPERATIONS	**(2,809)**	**(792)**	**2,850**

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 1993. The consolidated financial statements of Smiths City Group Limited for the six months ended 31 October 2014 comprise the Company and its subsidiaries (together referred to as the "Group").

The purchase of a further 35% shareholding in Adventure Brands Limited as at 31 March 2014 brought the Group shareholding to 65%. This acquisition has resulted in the Group obtaining control of Adventure Brands Limited and the company has been consolidated in these financial statements. Note however at 31 October 2013 Adventure Brands Limited was treated as an equity accounted investment.

No separate Parent results are disclosed in the interim financial statements.

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 2014 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 2014.

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 2014 as described in those annual financial statements and will be used in the financial statements for the year ended 30 April 2015.

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 2014. Refer Note 9 for further information in relation to the valuation of land and buildings.

f) Standards and Interpretations

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the six months ended 31 October 2014, as described in those annual financial statements.

The following new standards and amendments to standards were applied during the period:

- Amendment to IAS32: Financial Instruments: Presentation (effective 1 January 2014).
  There have been no changes made to the balance sheet as a result of this amendment.

- IFRIC21: Levies (effective 1 January 2014)
  This had not materially affected the measurement of any of the items recognised in the balance sheet or the profit and loss in the current period.

Certain new standards, amendments and interpretations of existing standards have been published that are mandatory for later periods and which the Group has not early adopted. These will be applied by the Group in the mandatory periods listed below. The key items applicable to the Group are:

- NZIFRS9: Financial Instruments (effective from annual periods beginning on or after 1 January 2018)
  This standard replaces NZIAS39 Financial Instruments: Recognition and Measurement. The standard is not expected to materially impact the Group.

- NZIFRS15: Revenue From Contracts With Customers (effective from annual periods beginning on or after 1 January 2017)
  This standard addresses recognition of revenue from contracts with customers. It replaces the current revenue recognition guidance in NZIAS18 Revenue and NZIAS11 Construction Contracts and is applicable to all entities with revenue. The standard is not expected to materially impact the Group.

There are no other standards, amendments or interpretations to existing standards which have been issued, but are not yet effective, which are expected to impact the Group significantly.

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 31.10.14				
Retail Activities	**104,135**	**-**	**104,135**	**9**
Finance Business	**5,338**	**-**	**5,338**	**2,128**
Property Activities	**-**	**536**	**536**	**601**
Parent Company	**-**	**-**	**-**	**(291)**
Total For Reportable Segments	**109,473**	**536**	**110,009**	**2,447**
Insurance Receipts for Property	**-**	**-**	**-**	**2,875**
Group Interest Paid	**-**	**-**	**-**	**(880)**
Consolidated Profit Before Taxation	**109,473**	**536**	**110,009**	**4,442**

	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	753
Finance Business	5,131	-	5,131	1,838
Property Activities	-	536	536	460
Parent Company	-	-	-	(393)
Total For Reportable Segments	108,504	536	109,040	2,658
Insurance Receipts for Property	-	-	-	172
Group Interest Paid	-	-	-	(730)
Consolidated Profit Before Taxation	108,504	536	109,040	2,100

Other Segment Information

	RETAIL ACTIVITIES ($000)	FINANCE ACTIVITIES ($000)	PROPERTY ACTIVITIES ($000)	TOTAL ($000)
UNAUDITED 6 MONTHS ENDED 31.10.14				
Assets	**69,560**	**69,020**	**16,631**	**155,211**
Liabilities	**(40,813)**	**(58,200)**	**(10,100)**	**(109,113)**
Equity	**(28,747)**	**(10,820)**	**(6,531)**	**(46,098)**
Acquisitions Of Property, Plant, Equipment and Intangibles	**931**	**4**	**2,438**	**3,373**
Disposals of Property	**-**	**-**	**595**	**595**
Depreciation And Amortisation	**(684)**	**(41)**	**-**	**(725)**
Interest Expense	**(568)**	**(2,118)**	**(312)**	**(2,998)**
Interest Revenue	**-**	**5,338**	**-**	**5,338**
UNAUDITED 6 MONTHS ENDED 31.10.13 (Restated)				
Assets	64,329	73,109	14,022	151,460
Liabilities	(40,283)	(59,900)	(10,100)	(110,283)
Equity	(24,046)	(13,209)	(3,922)	(41,177)
Acquisitions Of Property, Plant, Equipment, Intangibles And Investments	885	38	172	1,095
Depreciation And Amortisation	(632)	(66)	(50)	(748)
Interest Expense	(447)	(1,978)	(283)	(2,708)
Interest Revenue	-	5,131	-	5,131

4) Revenue

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)
Retail Sales	**104,135**	103,373
Revenue Including Fees From Finance Receivables	**5,060**	4,823
Other Finance Income	**242**	286
Interest Income On Bank Deposits	**36**	22
	109,473	108,504

5) Expenses By Nature

Purchases Net of Rebates	**(69,780)**	(69,395)
Movement in Inventory	**(2,461)**	(3,014)
Operating Lease Rental Expense	**(7,053)**	(6,816)
Employee Benefits	**(17,073)**	(16,823)

6) Other Income

Other income includes insurance proceeds of $2.875m received for the Colombo Street property. The costs associated with the Stage 2 rebuild have been added to the value of the property. This treatment to record the insurance receipt and costs incurred as separate transactions is consistent with that applied last year.

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 ($000)
Insurance Receipts for Property	**2,875**	172

7) Smithcorp Finance Receivables

	2014			2013 RESTATED		
	FIXED INSTALMENT ($m)	REVOLVING CREDIT ($m)	TOTAL ($m)	FIXED INSTALMENT ($m)	REVOLVING CREDIT ($m)	TOTAL ($m)
Gross Finance Receivables	**76,627**	**20,531**	**97,158**	80,903	20,254	101,157
Gross Finance Receivables						
Due From Adventure Brands	**-**	**-**	**-**	-	1,099	1,099
Provision For Unearned Income	**(26,845)**	**-**	**(26,845)**	(27,877)	-	(27,877)
	49,782	**20,531**	**70,313**	53,026	21,353	74,379
Less Impairment Allowances	**(798)**	**(495)**	**(1,293)**	(775)	(495)	(1,270)
	48,984	**20,036**	**69,020**	52,251	20,858	73,109

	UNAUDITED 6 MONTHS 31.10.14 ($000)	UNAUDITED 6 MONTHS 31.10.13 RESTATED ($000)
Analysed as follows:		
Current	**39,029**	42,157
Term	**29,991**	30,952
	69,020	73,109

The gross finance receivable due from related parties in 2013 comprised an amount due from Adventure Brands Limited under a revolving credit facility. Adventure Brands Limited became a 65% owned subsidiary on 31 March 2014. Accordingly, its assets and liabilities have been consolidated in these financial statements and as a result the inter company balance at 31 October 2014 is eliminated on consolidation.

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 (2013 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) 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 2014.

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.

<u>Interest Rates Used for Determining Fair Value</u>
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:

	2014	2013
Derivatives Held For Risk Management	**2.92%-4.75%**	2.95-3.32%

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 2014

	Level 1	Level 2	Level 3	Total
Other Investments, Including Derivatives (Current):				
Forward Exchange – Contracts Used For Hedging	-	240	-	240
Interest Rate Swaps Used for Hedging	-	(382)	-	(382)

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

Work on Stage 2 of the Colombo Street building project was completed by 1 October 2014. Costs totalling $3.4m in connection with this project have been added to the cost of the building as a result of Stage 2. Of this $2.45m was incurred during the six months ended 31 October 2014. During the period an area of the property surplus to ongoing requirements was disposed of by sale to a third party on an arms length basis. The Directors instructed Colliers Valuation to undertake an independent valuation in December 2014 following completion of Stage 2 and after the disposal of the surplus area. This assessed the value of the property at $17.82m. The valuation supported the current carrying value of $16.63m.

The fair value of this property will be reassessed at 30 April 2015 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The Groups accounting policy is to have independent valuers provide the fair value of the Group's investment property portfolio every three years, the next date for which is 30 April 2015.

The fair value measurement for the property of $16.6m has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

During the six months to 31 October the additions to plant, equipment and intangibles totaled $0.9m (2013 $0.9m).

10) 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 $0.5m (2013 $nil).

11) Related Party Transactions

During the six months ended 31 October 2014 the company advanced and repaid loans to its subsidiaries by way of internal transfers between current accounts.

During the six months ended 31 October 2014 Smiths City Properties received rental income relating to the Colombo Street property of $0.536m (2013 $0.536m) from Smiths City (Southern) Limited, a fellow subsidiary company of the Parent. This rental transaction is conducted on an arms length basis.

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 Managing Director's delegated powers. Purchases for the six months ended 31 October 2014 were $0.487m (2013 $0.412m). The amount owing to Datacom Group Limited at 31 October 2014 was $0.2m (2013 $0.1m).

ADVENTURE BRANDS LIMITED
The Group increased its 30% holding in Adventure Brands Limited to 65% on 31 March 2014. Accordingly, Adventure Brands Limited's results for the six months ended 31 October 2014 together with its assets and liabilities have been consolidated in these financial statements. Purchases for the six months ended 31 October 2014 were $0.35m (2013 $0.47m). The amount owing at 31 October 2014 was $0.1m (2013 $0.1m). As at 31 October 2014 a wholly owned subsidiary of the Group had advanced $1.96m to Adventure Brands Limited (2013 $1.1m). This advance is made on an arms length basis.

NARTA NZ LIMITED
The Group has an investment of $0.01m 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 $0.2m for the six months ended 31 October 2014 (2013 $0.1m). The amount owing to the Group at 31 October was $0.1m (2013 $0.1m).

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

	6 Months ended 31 October 2014 Directors ' Fees ($000)	Dividends ($000)	6 Months ended 31 October 2013 Directors ' Fees ($000)	Dividends ($000)
Executive Directors				
R Hellings	-	73	-	73
C D Boyce	45	41	45	49
Non Executive Directors				
J A Dobson	34	6	34	6
G R Rohloff	26	-	26	
	105	120	105	128

12) Contingent Liabilities

The Group has contingent liabilities of $nil at 31 October 2014 (2013 $nil).

13) Events After Balance Date

On 22 December 2014 the Directors announced to the NZX that they propose to pay a dividend of 1.0cent per share with no imputation credits on 13 February 2015 (2014 1.0cent).

14) Restatement of Prior Period

The Group has reviewed the accounting processes for the year ended 30 April 2014 adopted on transition to NZ IFRS in light of current guidance and has revised its process on the treatment of unearned finance revenue.

The impact of this revised process is that the reported net finance receivables value has reduced by $6.0m as at 1 May 2012. There has been minimal impact on reported profit in either the 2013 or 2014 financial years as the restatement reflects a change in the historical accounting process which is recorded as a reduction in opening equity at 1 May 2012 of $6.0m.

Accordingly the comparative figures at 31 October 2013 have been restated to reflect this prior period restatement.

Store Locations 2014

Company Directory

Directors and Officers

Chairman	Craig David Boyce
Deputy Chairman	John Allen Dobson
Directors	Gary Raymond Rohloff Sheena Moana Henderson Richard Hellings
Managing Director	Richard Hellings

Registered Office

550 Colombo Street
Christchurch 8011

Bankers

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Auditors

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Share Registrars

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