



Smiths City

live better

SMITHS CITY GROUP

ANNUAL REPORT

April 2017



We've got a store full of ways,
and a company full of people to help
you and your family live better.



For the rug on your floor that gives your toes a warm welcome home after a long day at work.

For the telly in the corner, delivering test match triumphs and reality-show cringes; the computer your kids promised would be for homework; the stove on which your son cooked Mother's Day breakfast and left looking like a disaster zone, and the beds in which you start and end every day.

That's the stuff that turns your house into a home. It matters, and it's worth getting right.

We've got the connections to bring you the deals on trusted brands. We've got the know how to tell the hype from the must-have tech. And we've got the service that's kept kiwis coming back to us for almost 100 years.

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ABOUT SMITHS CITY GROUP

Smiths City Group (NZX.SCY) was founded in Christchurch in 1918 and has a proud tradition as one of New Zealand's oldest and largest retail chains. The company floated on the stock exchange in 1972 and operates 37 stores, including 17 in the North Island and 20 in the South Island. It also operates the Smiths City Finance, and the Smiths City Commercial businesses. On the web: www.smithscity.co.nz

HIGHLIGHTS

REVENUE

\$227.4m

▲ Rises 2.5% on the prior year

SAME STORE SALES

\$198.2m

▲ Rises 3% on the prior year

TRADING PROFIT¹

\$2.0m

▲ Rises 53.8% on the prior year

3.5c FULLY- IMPUTED
TOTAL DIVIDEND

▲ Interim and final dividends are fully imputed,
lifting returns to shareholders

¹ Trading Profits are defined as net profit before tax, excluding the one-off \$1.8 million property gain in the prior year from the sale of the company's store in Colombo Street, Christchurch. For a reconciliation of this figure see page 34 of this report.

CHAIRMAN'S REPORT



Over the coming months we expect to transition the Furniture City stores and other leading outlets to the refreshed Smiths City 'live better' brand and store formats.

Craig Boyce

Chairman and Non Executive Director

Smiths City Group's ongoing operational improvements and a refresh of its brand and store formats are supporting the business in the face of a challenging trading environment.

Revenue for the year to 30 April 2017 increased 2.5% to \$227.4 million from \$221.9 million a year ago, with rising same store sales and the first full-year contribution from Furniture City offsetting the effects of store closures and aggressive competition in the retail finance sector.

Same store sales in the core Smiths City Retail business for the year rose 3% to \$198.2 million. But growth fell away in the fourth quarter of the financial year, particularly in upper North Island markets, in line with weakening housing market sentiment and rising interest rates.

In line with guidance, trading profit for the year rose 53.8% to \$2.0 million from \$1.3 million in the prior year. Stronger finance company earnings and lower restructuring and abnormal items insulated the company from the trading slowdown. Net profit after tax for the year fell to \$2.4 million from \$5.6 million. The prior year benefited from a one-off \$1.8 million gain from the sale of property and higher tax credits.

In the face of rising interest rates and consumer uncertainty, the core Smiths City retail stores have turned in a creditable performance.

However, the Furniture City business we acquired in April 2016 has found the recent trading downturn challenging, with sales falling sharply in the fourth quarter. Additionally, the finance business, while still delivering strong earnings, has lost ground as our competitors have aggressively expanded the availability of credit.

Over the coming months we expect to transition the Furniture City stores and other leading outlets to the refreshed Smiths City 'live better' brand and store formats. We are also rolling out a refreshed brand livery across the store network and are working towards relaunching our finance offer to make it more competitive.

We are cautiously optimistic that these changes will begin, in the second half of the year, to rebuild the recent momentum we have achieved in the business. Indeed, the early trading results from our new store in Hastings, the first to launch with our new 'live better' brand livery and store format, is demonstrating the potential of our new approach to customers to drive performance improvements.

Smiths City is in a strong financial position. Even though we expanded our distribution footprint we have reduced total assets by \$3.2 million to \$133.1 million through careful management of working capital. At the end of the financial year our core group had cash on hand of \$12 million, with all debt in the company carried against Smiths City Finance.

As announced to the market at the start of June, Smiths City is seeking shareholder approval to distribute \$5.7 million of capital via a compulsory acquisition of shares. The move is aimed at putting in place a capital structure appropriate for a well-established national retailer and ensuring shareholders fully benefit from the operational changes we are making.

Even after the planned capital distribution the finance company, which enjoys one of the lowest loan impairments in the country, will be conservatively geared with net debt to total assets of 15%, a level more than sufficient to weather a downturn or provide for further growth.

Reflecting our confidence in the financial strength of the business and its prospects, the board has today declared a fully-imputed final dividend of 2.5 cents per share taking the total for the year to 3.5 cents per share (fully imputed). Last year's total dividend of 3.5 cents carried no imputation credits.

The record date for dividend entitlements is 4 August 2017 and the payment date is 11 August 2017.

OUTLOOK

Smiths City is looking to the remainder of the financial year confidently. The market is challenging with demand for consumer durables weakening in the face of rising interest rates, and housing market uncertainty. Additionally, rural New Zealand is still recovering from the recession in commodity prices.

Nevertheless, we have a committed and loyal team that works hard for the success of the business. Meanwhile, the roll out of the new 'live better' brand livery across our national network, the transition of flagship stores to the new format and the refresh of our finance offer will position us well to compete effectively and continue to build on the Smiths City heritage.

We are looking forward to updating shareholders on our progress at our annual meeting in August.



Craig Boyce
Chairman

SUMMARY OF FINANCIAL PERFORMANCE

\$2.4m

Annual net profit after tax

\$5.7m

Proposed capital distribution

15%

Finance company gearing²

² As measured as net debt to total finance company assets

CHIEF EXECUTIVE'S REVIEW



The success of the new store in Hastings gives us confidence in the broad strategy.

ROY CAMPBELL
Chief Executive Officer

Smiths City is two years into a five-year turn around programme. Our initial efforts involved a refocus of the core business on an integrated furnishing and appliance in-store and online retail offer, where we believe we enjoy a competitive advantage thanks to our national scale, our trusted brand, point-of-sale finance proposition.

Following the closure of our last two appliance-only stores in Wellington and Christchurch at the start of the financial year, we have focussed on the revitalisation of the Smiths City customer proposition. This has culminated in the development of the new 'live better' brand livery and store formats.

The new approach, which follows extensive market research, seeks to broaden our customer base, engage with our customers to determine their needs and tastes and offer home furnishing and appliance solutions to help them 'live better'.

It builds on Smiths City's long-standing reputation for offering good quality and trusted brands at a competitive price. Across our network we are delivering a more contemporary home furnishing range and a refined appliance and personal technology offer.

At the same time, with the development of new store and online formats and staff training, we are beginning to put the products to the customer in a way that they can relate to and access easily and at their own pace.

The success of the new store in Hastings gives us confidence in the broad strategy. The store has established a very strong position in the Hawkes Bay, despite facing robust competition from local and national retailers.

The Furniture City stores will be among the first to benefit from the new approach. Its three outlets have found the already-tough trading conditions more difficult due to their single-category focus and their inability to leverage a national brand in advertising and marketing programmes.

We are moving to correct these shortcomings with the upgrade and rebranding to the Smiths City 'live better' format, show-casing the full range of our offering. The Whangarei store upgrade will be completed in August of this year with the Auckland stores following suit in the coming months.

We continue to work hard on improving how we engage, relate and retain our customers through improving our Internet and customer relationship practices. We see a vibrant future for the 'bricks and mortar' retail offering blended with the virtual online experience. We believe home furnishing and appliance categories are particularly suited to this 'omni channel' approach.

The new approach requires the use of data to more closely provide a relevant, timely offer to our customer base. To achieve this goal, we have begun an upgrade to our information systems and we hope to begin to realise the benefits over the course of this year.

SMITHS CITY FINANCE

Annual trading profits at Smiths City Finance rose to \$3.7 million from \$3.0 million a year ago, despite revenue falling to \$9.2 million from \$10.3 million as the business weathered the combined effects of the recent trading downturn and more aggressive competition.

Smiths City's finance offer remains at the heart of the 'live better' approach. It allows us to strengthen our relationships with our customers and better anticipate their needs. It is also a key enabler of the 'live better' proposition as it makes higher-value furniture and appliances more accessible.

A key focus in the coming year will be to enhance the finance business to make it more relevant and better able to compete. We are aiming at introducing an online approval process and make changes to the structure of the offer so that we cement a relationship with customers for the long-term rather than just providing finance for a single purchase.

We have appointed a new General Manager Smiths City Finance with strong industry experience to drive these changes and make the most of the significant opportunities we see for this business.

OPERATIONS

We have continued to take cost out of the business with working capital decreasing by \$2.3 million. Inventories are down by 10.1% to \$36.3 million. This reduction was made possible by a more careful and structured approach to purchasing and category management.

As we mentioned at the half year, we have reset our buying department to a category management approach including the addition of a Merchandising Planner to the team. This position brings visibility to purchasing decisions across all categories, ensuring we are promoting products that customers are most likely to buy rather than what we have in stock.

We see continuing opportunities to rationalise our property portfolio through optimising our store and distribution and logistics footprint.

The repurposing of the Furniture City warehouse in Manukau, Auckland to service our North Island store network will result in freight savings and is a key initiative for the current financial year.

10% REDUCTION
IN INVENTORY

▼ to \$36.3 million

37 STORE
NUMBERS

▼ down 1 on the prior year

\$3.7m FINANCE COMPANY
TRADING PROFIT

▲ up 23% on the prior year

We continue to build capability in the business. We have committed to implementing training programmes across all levels of the organisation to ensure we are prepared and able to adapt and thrive in what is a rapidly changing sector of the economy.

Smiths City is in good shape. Although the market is presenting some challenges. We are confident we are taking the right steps. We have a great team and we think we have all we need to build on the company's proud history.



Roy Campbell
Chief Executive Officer

MISSION AND STRATEGY

Smiths City's vision is to be the trusted national provider of furnishings and appliances enabling our customers to live better every day.

We are achieving this goal by adhering to our core values of customer focus, integrity, professionalism, communication and a focus on four strategic goals.



OUR VALUES

OUR VALUES ARE OUR COMPASS

WE USE THEM TO GUIDE OUR BEHAVIOUR
AS WE WORK TO HELP OUR CUSTOMERS
LIVE BETTER.



1 To be a growing profitable and sustainable retail leader that is recognised for putting the customer at the heart of what we do:

What we achieved

- We grew same store sales by 2.8% as operational improvements delivered results
- We grew our trading profits by 53.8%
- We exited the last of our appliance only stores
- We launched the new Hastings store under the new 'live better' brand livery in March 2017 and the store is trading ahead of expectations

Focus for the year ahead

- Refurbish stores under the 'live better' brand livery including the Furniture City stores in Auckland
- Continue to rationalise the property portfolio and optimise of the distribution and logistics footprint, including repurposing the former Furniture City warehouse in Auckland
- Continue to build our reputation for customer service

2 To offer a leading and attractive finance product that enhances and secures Smiths City's relationship with its customers

What we achieved

- We have hired a new General Manager Smiths City Finance who will refresh the product this financial year
- We grew the finance company's trading profits by more than 23% despite a fall in revenue
- We refinanced our loan book with ASB

Focus for the year ahead

- Refresh the finance company proposition
- Launch an online interface for finance approvals
- Continue to build on the potential of the finance company to strengthen relationships with customers



CUSTOMER FOCUS

THE CUSTOMER IS AT THE HEART
OF WHAT WE DO – EVERYDAY, EVERYTIME.



PROFESSIONALISM

WE ACHIEVE THE HIGHEST STANDARDS;
HONESTY AND FAIRNESS GUIDE US.



INTEGRITY

OUR PROMISE IS OUR MOST IMPORTANT
PRODUCT; OUR WORD IS OUR BOND.



COMMUNICATION

SHARING TIMELY, ACCURATE INFORMATION
IS THE KEY TO OUR SUCCESS

3

To recognise people as a core strategic enabler for Smiths City

What we achieved

- We have developed a clear framework that identifies the skills our people need for Smiths City to adapt and thrive
- We have partnered with a retail and service training organisation to deliver New Zealand Qualifications Authority approved training to our staff
- We engaged with the Institute of Strategic Leadership to continue to develop our executive team
- We have begun to introduce succession planning across key roles in the business.

Focus for the year ahead

- Roll out the new training programmes across the business
- Continue to implement our refreshed appraisal programme across the business to ensure we are developing our people
- Continue to drive the adoption of Smith City's values

4

To provide a strong return to our shareholders

What we achieved

- We announced a \$5.7 million capital distribution to improve capital management and ensure shareholders benefit from operational improvements
- We paid a fully-imputed final dividend of 2.5 cents per share taking total dividends to 3.5 cents
- We achieved strong cashflow in the retail business with careful control of inventory to improve stock turns

Focus for the year ahead

- Drive margin improvement
- Continue to minimise working capital in the business with careful control of inventory
- Continue to prioritise cash flow generation



A GLIMPSE OF THE FUTURE

Smiths City's new store in Hastings, the first to show case the new 'live better' livery and store format, has established a strong position in the Hawkes Bay despite strong competition.



Solutions to live better – that is the over-arching theme of Smiths City's new Hastings store, which now sports a livery and format that will be rolled out in Auckland later this year.

Thanks to the internet, customers are often baffled by the vast range of products on offer from a broad range of retail outlets, both in New Zealand and offshore. Smiths City understands customers need help and inspiration to come up with choices that best suit them.

So, we present furnishings in 'room and lifestyle sets' that let customers imagine how a new sofa, dining table, or a bedroom suite may look in their home. And we back that offer up with staff adept at determining customers' needs and tastes and developing solutions to meet them.



SMITHS CITY HASTINGS

March '17

Store Opened

2200 sqm

Store Size

200

Quality Brands

6

Staff

"We present your home in our store," says Smiths City Chief Executive Roy Campbell. "We are aiming to offer customers an experience of what they may want to see or aspire to in their own homes. And we offer all of this in an engaging, attractive environment that is easy to navigate and understand."

The new Hastings store has two 'power aisles' that provide quick and easy access to clearly-signposted departments within the store. Alongside each power aisle, we offer small kitchen appliances or home accessories that are often bought on impulse. This approach ensures Smiths City makes the most of the customer traffic attracted to the store's strong appliance and furniture offer.

Each department uses coloured carpet tiles to clearly indicate location – blue for appliances, orange and green for home technology. They also offer easily navigable lanes that guide customers through displays return them back on to the main boulevards.

In the middle of the store Smiths City has built a hub where customers can arrange finance or complete transactions. The hub ensures staff are always visible and available for customers and conversely ensures staff can always see customers and move quickly to respond to their needs.

The design gives an emphatic nod to Smiths City's Canterbury origins. The carpet floor tiles and the colours, for example, reflect the patchwork and colouring of the Canterbury Plains.

All structural elements in the new store are made of kit sets that can be erected without the need for alterations to the store itself. This means stores adopting the new format can continue to trade during refurbishment.

"Our new concept clearly signals to the market and our customers the value and service they can expect from Smiths City. It also demonstrates our point of difference: our determination to provide high quality products, expert advice and the assurance of a trusted and iconic kiwi brand," Roy Campbell says.

SMITHS CITY PEOPLE

Smiths City is developing a culture that celebrates success.

In the first two years of our five-year turn around programme we refreshed the executive management team. This included the introduction of new senior roles in human resources, logistics, marketing, and merchandising.

We also engaged with staff across the business on the company's culture and this culminated in the development of values that describes the behaviours necessary to execute against our vision.

The next step has been to identify where we need to build capability in the business to ensure we can adapt and thrive in the rapidly-changing retail sector. Over the past year we have made good progress towards this goal.

Key initiatives to develop a staff development framework have included:

- **Reviewing** and re-writing all job descriptions in the business to make sure they encompass the key competencies, roles, and responsibilities necessary for the company to thrive
- **Identifying** areas for development and training
- **Refreshing** the company-wide appraisal scheme
- **Building** staff commitment to the company's values
- **Collaborating** with high-quality education providers to help Smiths City quickly make up any significant capability deficits and identify opportunities for further development

Service IQ, the service industry training organisation, is assisting us to develop training programmes for retail staff, while we have engaged a range of providers for our executive team.

In the current financial year, we expect to put a fifth of our staff through workplace training in areas most likely to deliver material improvements in our financial results. But over time the programmes will engage all staff.

Meanwhile, we are continuing to drive the adoption of our values, which over the long term will differentiate our business from our competitors and be a key driver of our success.



HELPING THE COMMUNITY

Smiths City is committed to helping the communities we serve and particularly the families and children in these communities to live better.

In the 2017 financial year we contributed more than \$100,000 for national and local projects focused on improving the lives of family and children in need. We also supported a broad-range of community-initiated projects. Key initiatives during the year included:



FUNDING CHILD HEALTH RESEARCH

In October 2016 Smiths City began a new association with Cure Kids, the largest funder of child health research outside the government sector. Since Cure Kids was established by Rotary in 1971 as the Child Health Research Foundation, it has helped save and improve the lives of thousands of kids in New Zealand and around the world. This has included contributing \$40 million into research that has helped shape and change the way children who live with serious diseases and health conditions are diagnosed and treated. Smiths City has made cash donations, facilitated the collection of customer donations on behalf of Cure Kids through the store network, and donated products for charity fundraising auctions.

SAYING THANKS TO CANTERBURY'S FIREFIGHTERS

We said a big thank you to the more than 70 firefighters who battled to save homes and property during the devastating fires on the Port Hills earlier this year. We donated five percent of sales from our three Christchurch stores during a weekend in February, building a \$25,000 fund for the Selwyn and Christchurch rural and urban firefighters social club. The money is to be put towards an annual family day event.



Cure Kids CEO Frances Bengé and Smiths City Chief Executive Roy Campbell



HELPING FAMILIES WITH SICK CHILDREN

Smiths City continued with its long-term commitment to the South Island Ronald McDonald House, which provides free accommodation to families while their children are hospitalised so they can concentrate on what matters most: helping them to heal.

We provided furniture and appliances for accommodation units, helping to create an environment that is truly welcoming and provides respite from the hospital. Meanwhile, we donated furniture to the Burwood Spinal Unit's Tapper accommodation facilities, which provide lodging for patients' families and outpatients who normally live outside Christchurch. This follows on a donation of furniture to outfit the unit's Milner accommodation blocks for longer-stay supporting families.

MANAGING OUR IMPACT ON THE 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 its chain of clearance centres. 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.

COMPANY PROFILE



SMITHS CITY SNAPSHOT

1918

Established

\$227.4 m

Annual Sales

37

Stores

591

Employees[^]

[^]as at 30 April 2017

Smiths City is one of New Zealand's most trusted brands. We've been providing great customer service, a huge range of quality products and affordable finance plans for nearly a century. The company is listed on the NZX and employs 591 people (as at 30 April 2017).

SMITHSCITY.CO.NZ

Our online channel is central to sales growth and the future of the business. It enables customers to engage and transact with Smiths City in any way they wish. It enhances the customer experience and provides new opportunities for our customers to find solutions to live better.

SMITHS CITY FINANCE

Consumer finance is an integral part of our service model. It allows us to strengthen our relationships with our customers and better anticipate their needs. It is also a key enabler of the 'live better' proposition as it makes higher-value furniture and appliances more accessible. Smiths City Finance 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.

OUR BRANDS

A core strength of the group is our product offering. We are proud to represent many of New Zealand's best-known brands in-store and online, including Sleepyhead and Fisher & Paykel, 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 Coastwood and Woodpeckers.

TREND STATEMENT

GROUP FINANCIAL PERFORMANCE	2013 (\$m)	2014 (\$m)	2015* (\$m)	2016 (\$m)	2017 (\$m)
Operating Revenue	222.5	220.0	221.4	221.9	227.4
Profit Before Taxation	6.3	4.7	8.7	3.1	2.0
Add / (Deduct) Taxation Credit / (Expense)	(0.9)	(0.6)	(1.1)	2.5	0.4
Profit After Income Tax	5.4	4.1	7.6	5.6	2.4

GROUP FINANCIAL POSITION

Assets

Total Trading Assets	70.7	78.7	80.0	67.8	66.4
Finance Company Assets	77.5	73.0	69.9	68.5	66.7
Total Assets	148.2	151.7	149.9	136.3	133.1

Deduct Liabilities

Total Trading Liabilities	45.0	48.4	43.3	27.8	26.4
Finance Company Liabilities	62.8	60.3	57.4	56.2	53.3
Total Liabilities	107.8	108.7	100.7	84.0	79.7

Net Group Assets	40.4	43.0	49.2	52.3	53.4
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Total Trading Assets (As Above)	70.7	78.7	80.0	67.8	66.4
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Net Finance Company Assets

Receivables	76.7	72.0	68.7	66.6	63.1
Bank	0.8	1.0	1.2	1.9	3.6
Deduct Borrowings	(62.8)	(60.3)	(57.4)	(56.2)	(53.3)
Net Investment In Finance Company	14.7	12.7	12.5	12.3	13.4
Total Assets	85.4	91.4	92.5	80.1	79.8
Deduct Total Trading Liabilities (As Above)	45.0	48.4	43.3	27.8	26.4
Net Group Assets With Finance Company As An Investment	40.4	43.0	49.2	52.3	53.4

Key Ratios

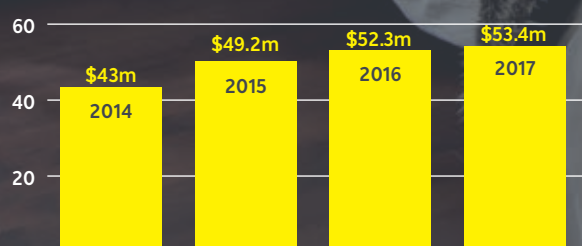
Net Profit Before Tax To Operating Revenue	2.8%	2.1%	3.9%	1.4%	0.9%
Net Profit After Tax To Operating Revenue	2.4%	1.9%	3.4%	2.5%	1.1%
Net Profit After Tax To Opening Net Assets	14.6%	10.1%	17.7%	11.4%	4.6%
Earnings Per Share – cents	10.21	7.70	14.4	10.6	4.6
Shareholders' Funds To Total Assets	27.3%	28.3%	32.8%	38.4%	40.1%
Shareholders' Funds To Assets With Finance Company As An Investment	47.3%	47.0%	52.2%	65.3%	66.9%

SUMMARY OF RETURNS TO SHAREHOLDERS

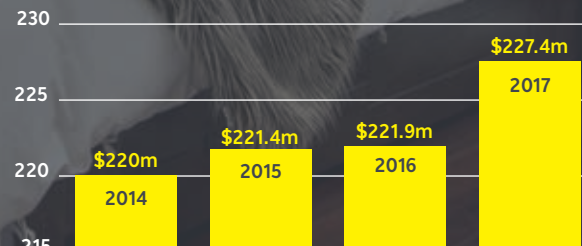
Net Dividend Per Share – cents	3.50(1)	3.50(1)	3.50(1)	3.50(1)	3.50
Imputation Credits – cents	0.00	0.00	0.00	0.00	1.36
Gross Dividend Per Share – cents	3.50	3.50	3.50	3.50	4.86
30 April Share Price – cents	59	56	56	50	71
Gross Dividend Yield Based on 30 April Share Price	5.93%	6.25%	6.25%	7.00%	6.85%

(1) Dividend paid without imputation credits

NET GROUP ASSETS \$m



OPERATING REVENUE \$m



*Refer to Note 29 for further information in respect of the restatement in 2015

DIRECTOR PROFILES

Craig David Boyce

B COM, ACA, FNZIM, F INST D
Chairman
Non-Executive Director

Craig Boyce is an experienced professional Director and holds directorships in many other companies. He joined Smiths City in 1988 and was Chief Executive from 1990 to 1999. He joined the Board in July 1998 and was appointed Chairman in May 1999 - relinquishing his position as Chief Executive. From May 1999 to October 2003 Craig also held various executive duties within the Group primarily with Smithcorp Finance Limited which was identified as a key area of strategic growth. Craig withdrew from his wider executive duties in October 2003 to become Non Executive Chairman of the Board of Directors of Smiths City Group Limited.



John Allen Dobson

B COM, C F INST D
Deputy Chairman
Independent Non-Executive Director
Audit Committee Chairman

John Dobson has been a professional Director for over 20 years serving on Boards of companies in diverse industries ranging from listed companies, several large privately held companies and publicly owned entities.

His executive career includes senior positions in food processing, finance and banking, importing and distribution. He joined the Smiths City Board in 1994.



Gary Raymond Rohloff

MBA

**Independent Non-Executive Director
Audit Committee Member**

Gary Rohloff joined the Smiths City Board in December 2010. He is Founder & Managing Director of Laybuy (www.laybuy.com). Prior to this Gary has been the CEO for Number 1 Shoes Limited; Warehouse Stationary Limited and Ezibuy Limited. He has been Group Treasurer of Mercury Energy and Assistant Treasurer at Transpower Limited.



Sheena Moana Henderson

BBS BSC

**Independent Non-Executive Director
Audit Committee Member**

Sheena Henderson is a professional director and corporate advisor, specialising in advising businesses and Boards to understand, develop and strengthen their brands, business and people assets. Sheena holds independent directorships in a number of New Zealand companies.

Previously Sheena was Global Brand Director for Fonterra Brands. She has an impressive record in business leadership, global branding and retailing experience. Sheena joined the Board in December 2014.



Tony Donald Allison

BCOM, BA, CA, CMINSTD

**Independent Non-Executive Director
Audit Committee Member**

Tony Allison joined the Board in June 2016. Tony is currently the Chief Executive for Night 'n Day Foodstores Limited and serves on other boards including City Forests Limited and Dunedin International Airport Limited. Tony is a Chartered Accountant and a Chartered Member of the Institute of Directors.

His executive career includes senior positions in large accounting and legal firms along with a major construction and development company.



EXECUTIVE MANAGEMENT PROFILES

Roy Campbell MBA, DIP. BUS. MKTG

Chief Executive Officer

Roy Campbell joined Smiths City on 1st May 2015. Roy brings to the Group 30 plus years experience and expertise in change management within large, multi-site retail, wholesale and FMCG operations. He has worked in many markets including New Zealand, the UK, Eastern Europe and the USA. Roy has an extensive history of achieving tangible financial and operational results through the successful restructuring of organisations. He provides clear strategic direction in the planning and delivering of effective implementation strategies resulting in improved ROIs. Roy holds an MBA and a Diploma in Marketing from the University of Auckland.



Brian Lee B COM, CA

Chief Financial Officer

Brian is an accountant with over 30 years' experience in the public practice and corporate sectors. He has been Smiths City Group's Chief Financial Officer for the past 11 years, having previously held senior finance roles in the United Kingdom and Russia. Brian is responsible for internal and external financial reporting and leads all aspects of the finance function.



Valerie Wright BA BUS. PSYCH

Group Human Resources Manager

Valerie joined Smiths City in August 2015. She is a senior professional HR practitioner with over 20 years operational and strategic experience, gained across a broad range of industries including Health and Professional Services. Valerie is highly skilled and experienced in corporate HR, organisational development and Health and Safety management and implementation.



Peter Dickie MBA, B COM, B ARTS

General Manager, Marketing

Pete Dickie joined Smiths City in January 2016. Pete is a qualified, successful and highly regarded professional marketer who has over 20 years experience gained across a diverse range of industries, categories and brands. Prior to joining Smiths City he has held senior marketing roles at Kathmandu, Pernod Ricard NZ and Cerebos Greggs Ltd.

Pete's academic qualifications include an MBA from the University of Canterbury and a B Com, and B Arts, from the University of Otago.



Adam Doocey BSC (MATHEMATICS, COMPUTER SCIENCE)

Chief Information Officer

Adam joined Smith City Group in June 2017. He is a senior IS leader with 20 plus years' experience gained across NZ businesses and government departments. Prior to joining Smiths City Group, Adam has had over 10 years specialising in Retail Systems during which he led a variety of teams servicing several well-known NZ brands. Prior to this, Adam spent several years leading software development teams in the Logistic industry. Adam is highly skilled in leading teams through organisational change and delivering operation efficiency.



Bryce Jenkins

National Sales Manager

Bryce has been a 'retailer' for 20 years with the Smiths City Group. He has developed and progressed from sales through to his current senior leadership management position and responsibilities. Bryce has a broad range of valuable experience including product service and installation, marketing, and commercial sales. This has taken Bryce to some important regional roles within the Group in the South Island and Bay of Plenty.



Jared Robbie B COM (MGMT)

General Manager, Merchandise

Joined Smiths City in May 2016 in merchandise management, responsible for sourcing and procurement of products from the Group's global partners and vendors. Jared is a skilled professional with over 7 years experience in management roles based in Shanghai, China. He is a specialist in the creation and implementation of strategic sourcing processes as well as a strong track record in growth management for The Warehouse Ltd and Mitre 10 NZ. Jared is also fluent in written and spoken Mandarin and has spent the last 11 years based in China.



John Mander B COM, CA

General Manager Smiths City Finance

John joined the Group to lead the consumer finance subsidiary, Smiths City Finance, in June 2017, bringing over 30 years experience in finance and accounting roles specialising in financial services. A Chartered Accountant and initially trained in a Big Four firm, John has performed corporate finance roles as a senior executive in a listed company, followed by over 15 years in consumer financial services, including leading the development of the consumer finance business as Chief Executive of a successful finance company.



CORPORATE GOVERNANCE

The Board is committed to conducting the company's business ethically and in accordance with high standards of corporate governance. The primary purpose of the Board is the survival and wellbeing of the company; and to build a long term shareholder value with due regard to other stakeholder interests.

It does this by guiding strategic direction and focusing on issues critical for its successful execution. This governance statement outlines the company's main corporate governance practices as at 30 April 2017.

COMPLIANCE

The ordinary shares of the Smiths City Group Limited (the "Group" or "company") are listed on the New Zealand Stock Exchange ("NZX"). The company seeks to follow the best-practice recommendations for listed companies to the extent that it is appropriate to the size and nature of the Group's operations.

The company considers its governance practices complied with the NZX Corporate Governance Best Practice Code (the Code) in its entirety for the year ended 30 April 2017. The structure of this section of the Annual Report reflects the Financial Markets Authority's Corporate Governance Principles and Guidelines.

PRINCIPLE 1 – ETHICAL STANDARDS

Directors should set high standard of ethical behavior, model this behavior and hold management accountable for delivering those standards throughout the company.

The Board of Directors of Smiths City Group Limited recognise the need for the highest standards of Corporate Governance practice and ethical conduct. The Group's Corporate Governance processes are consistent with the NZX Corporate Governance Best Practice Code.

Share Trading Protocol

The company has adopted a formal procedure governing the sale and purchase of the company's securities by Directors and employees. All Directors and employees must also act in accordance with this procedure and the requirements of the Financial Markets Conduct Act 2013 (FMCA).

The procedure (which is also subject to the requirements of the Financial Markets Conduct Act 2013 (FMCA)) requires employees to obtain the written consent of a Director, or in the case of a Director, of the Chairman of the Board, prior to trading in the company's shares. Generally, this consent will only be given in respect of trading in the 60 day period following the announcement of the company's half year and annual results.

Use of Company Information

During the year the Board did not receive any notices from Directors of the company requesting the use of company information received in their capacity as Directors which would otherwise not have been available to them.

PRINCIPLE 2 – BOARD COMPOSITION AND PERFORMANCE

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Role of the Board of Directors

The Board is appointed by shareholders to govern the company in their interests and is responsible for the proper direction and control of the company's activities. Being responsible for the overall stewardship of the company the Board has particular focus on:

- Commercial Performance and Strategy Development
- Financial and Dividend Policies including preparation of annual financial statements
- Identification and Control of Business Risks
- Internal Control Systems
- Compliance with New Zealand laws, regulations, the listing rules (including continuous disclosure regime), professional standards and contractual obligations
- Business Plans and Budgets
- Delegations of Authority
- Identification and Control of Business Opportunities
- Integrity of Management Information Systems
- Reports to Shareholders and other key Stakeholders

The Board has delegated day to day management of the company to the Chief Executive Officer and the senior team of the company. Operational and administrative policies are in place and the company has both internal and external audit systems for monitoring the company's operational policies and practices.

The Chairman and Chief Executive determine the agenda for Board meetings. On a monthly basis, the Board receives operational reports summarising the company's activities against key performance indicators. In addition, the Board receives regular briefings from the management team on key strategic and performance issues either as part of regular Board meetings or in specific briefing sessions. The Board are kept fully apprised of developing issues that may impact company operation.

Board Composition

The Board currently comprises five Directors including the Chairman.

The company's constitution sets out policies and procedures on the operation of the Board including the appointment and removal of Directors. The NZX Listing Rules and the company's constitution provide that a minimum of three Directors is required, of whom at least two shall be independent. Currently the Board comprises five Directors, being Non-Executive Chairman, and four independent non-Executive Directors.

The Board acknowledged the importance of independent Directors in ensuring an optimal balance between Board members who are able to bring a wide range of business experience and skills, and those with direct company knowledge and operational responsibility. Under the constitution, one third of Directors must retire by rotation at the Annual meeting each year but, if eligible, may offer themselves for re-election.

Pursuant to NZX Listing Rule 3.3.5, the company is required to make an announcement to the market advising the closing date for Director nominations. That announcement must be no less than ten business days prior to the closing date and the closing date must be not more than two months prior to the Annual meeting.

Independent Directors

The New Zealand Stock Exchange has determined that a component of good governance is the identification of independent directors. The Board has resolved that J A Dobson, G R Rohloff, S M Henderson and T D Allison are defined as independent.

Group Management Structure

The Group's organisation structure is focused on its two main activities: retail trading and the provision of consumer finance to support and enhance the retail activities. This delivers an organisation that is focused on both the key activities of the company.

PRINCIPLE 3 – BOARD COMMITTEES

The Board should use committees where this would enhance its effectiveness in key areas, while still retaining Board responsibility.

Committees

To enhance efficiency the Board has delegated some of its duties to Board committees and other powers to the Chief Executive. The Chief Executive has in turn formally delegated certain authorities to his direct reports and has established a formal process for his direct reports to further delegate.

The Board has an Audit Committee, a Remuneration Committee and a Nomination Committee which meet as required. The terms of reference for the Committees are the responsibility of the entire Board.

Audit Committee

Chairman: J A Dobson

Members: G R Rohloff; S M Henderson, T D Allison (appointed to Audit Committee 29.05.17)

The Audit Committee is responsible to the Board for the appointment of the external auditors. It also monitors both the internal and external audit functions. In addition, the auditors are also able to (and do) communicate directly with the Chairman of the Audit Committee at any time.

The Committee recommends the adoption of the Annual Report and Financial Statements to the Board. In addition, the Committee is responsible for ensuring that the Group has effective internal controls.

The Audit Committee also addresses taxation matters pertaining to the Group and ensures the Group complies with all relevant taxation legislation.

Nomination Committee

The Nomination Committee consists of all members of the Board.

The Nomination Committee is responsible for selecting appropriate nominees for election as Directors.

Remuneration Committee

The Remuneration Committee consists of all members of the Board.

The Remuneration Committee is responsible for ensuring that fees paid to Directors and senior employees assist in attracting and maintaining talented and motivated Directors and senior employees as a way of enhancing the performance of the company and the value for shareholders. This Committee is responsible for setting and reviewing the human resources structure, strategy and policy for the company. It reviews the performance of the Chief Executive and senior executives.

Attendance At Meetings

Directors attended the following meetings during the year:

	BOARD MEETINGS		AUDIT COMMITTEE	
	No of meetings	No attended	No of meetings	No attended
C D Boyce	12	12	4	3
J A Dobson	12	12	4	4
G R Rohloff	12	11	4	4
S Henderson	12	12	4	4
T D Allison	12	10	n/a	n/a

The Remuneration Committee met twice during the year – in conjunction with Board meetings.

The Nomination Committee met once during the year – in conjunction with Board meetings .

PRINCIPLE 4 – REPORTING AND DISCLOSURE

The Board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures.

Financial Reporting

The Audit Committee oversees the quality and integrity of external financial reporting including the accuracy, completeness and timeliness of financial statements.

It reviews half yearly and annual financial statements and makes recommendations to the Board concerning accounting policies, areas of judgement, compliance with accounting standards, stock exchange and legal requirements, and the results of external and internal audit.

Timely and Balanced Disclosure

The Group considers that shareholders and the investment market generally should be promptly informed of all major business events that influence the company and to ensure compliance with NZX Continuous Disclosure requirements.

The Board is responsible for making decisions on what should be disclosed publicly.

PRINCIPLE 5 – REMUNERATION

The remuneration of Directors and executives should be transparent, fair and reasonable.

Remuneration And Benefits

The Board seeks independent advice before recommending to shareholders any increase in the maximum level of Directors' fees payable.

This review is currently being undertaken. The Directors' fees are currently a maximum of \$314,000 as approved at the 2015 Annual Meeting of shareholders, where the Directors chose not to apply the CPI increase from 2014.

The fees paid to Directors for services in their capacity as Directors during the year ended 30 April 2017 were:

	Directors' Fees	Other Services	Total Remuneration
INDEPENDENT NON EXECUTIVE DIRECTORS			
C D Boyce	90,000	-	90,000
J A Dobson	68,500	-	68,500
G R Rohloff	53,500	-	53,500
S M Henderson	53,500	-	53,500
T D Allison*	48,500	-	41,349
	314,000	-	306,849

*Mr T D Allison was appointed 1.6.16

PRINCIPLE 6 – RISK MANAGEMENT

Directors should have a sound understanding of the key risks faced by the business. The Board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

Risk Identification And Management

The Group has a formal Risk Management Plan to identify areas of significant business risk and implement procedures to effectively manage those risks. The Risk Management Plan has an emphasis on:

- **Operational Risks:** risks associated with the company's normal business operations, including normal day to day exposures relating to customers, stores, employees, systems, suppliers, health and safety in the work place and regulatory bodies;
- **Funding Risks:** risks associated with the funding of the company's operations, including exposures relating to investment of surplus cash, and to interest rate and exchange movements;
- **Environmental Risks:** risks associated with the environment in which the Group operates, including exposures to natural disasters and to changes in social trends, economic conditions and customer preferences; and
- **Strategic Risks:** risks associated with company initiatives that are outside the normal course of business, including exposures relating to initiatives to expand into new brands, markets, regions and business activities and to adopt new systems.

Where appropriate, the Board obtains advice directly from external advisers. Once a significant business risk is identified, the Board is advised and action is taken promptly to mitigate and monitor or, if there are benefits to be obtained, take advantage of these in addressing the risk.

Indemnities and Insurance

The company has effected Directors' and Officers' Liability Insurance and Statutory Liabilities and Defence Costs Insurance on behalf of the Directors and Officers. The company has also entered into indemnities with Directors and Officers as required by the company's constitution. The insurance and indemnity do not cover liabilities arising from criminal action. Directors have completed Certificates of Indemnity and Insurance as required by Section 162 of the Companies Act 1993.

PRINCIPLE 7 – AUDITORS

The Board should ensure the quality and independence of the external audit process.

Approach to Audit Governance

The independence of the external auditor is of particular importance to shareholders and the Board. The Audit Committee is responsible for overseeing the external audit of the company. Accordingly, it monitors developments in the areas of audit and threats to audit independence, to ensure its policies and practices are consistent with emerging best practice in these areas.

The Board has adopted a policy on audit independence, the key elements of which are:

- The external auditor must remain independent of the company at all times and comply with the New Zealand Institute of Chartered Accountants (NZICA) Code of Ethics;
- The external auditor must monitor its independence and report to the Board that it has remained independent;
- Guidelines in relation to the provision of non audit services by the external auditor in order that the provision of such services does not impair the external auditors independence or objectivity;
- The audit firm may be permitted to provide non audit services that are not considered to be in conflict with the preservation of the independence of the auditor subject to the approval of the company's Audit Committee; and
- The Audit Committee must approve significant permissible non audit work assignments that are awarded to an external auditor.

Engagement of the External Auditor

The Group's external auditor is KPMG. KPMG was appointed by shareholders at the Annual Meeting in accordance with the provisions of the Companies Act 1993 (Act) KPMG is automatically reappointed as auditor under Section 200 of the Act.

Attendance at the Annual Meeting

KPMG, as auditor of the 2017 financial statements, has been invited to attend this year's annual meeting and will be available to answer questions about the conduct of the audit, preparation and content of the auditors' report, accounting policies adopted by Smiths City Group Limited and the independence of the auditor in relation to the conduct of the audit.

PRINCIPLE 8 – SHAREHOLDER RELATIONS

The Board should foster constructive relationships with shareholders that encourage them to engage with the company.

The company values its dialogue with institutional and private investors and is committed to giving all shareholders comprehensive timely and equal access to information about its activities.

The Board aims to ensure that shareholders are informed of all information necessary to assess the Board's performance. They do so through a communication strategy which includes:

- Periodic and continuous disclosure to NZX;
- Half yearly and annual reports;
- The annual shareholders' meeting and any other meetings called to obtain approval for Board actions as appropriate;
- The company's website.

In accordance with the New Zealand Companies Act and NZX Listing Rules, the company is no longer required to automatically mail a hard copy of its half yearly or annual reports to shareholders.

The Board has moved to electronic reporting. Even though interim and annual reports are available electronically, shareholders can request a hard copy of the report to be mailed to them free of charge.

The Notice of Meeting is circulated at least 10 days before the meeting and is also posted on the company's website.

Shareholders are provided with notes on all the resolutions proposed through the notice of meeting each year. Directors and the company's external auditor are available to answer shareholder questions. The Board encourages full participation of shareholders to ensure a high level of accountability and identification with the company's strategies and goals.

PRINCIPLE 9 – STAKEHOLDER INTERESTS

The Board should respect the interests of stakeholders taking into account the company's ownership type and its fundamental purpose.

The Group aims to manage its businesses in a way that will produce positive outcomes for all stakeholders including the public, customers, team members, suppliers and shareholders.

We monitor progress in business sustainability as we seek to actively improve the social and environmental characteristics of the business. This is a goal to which the businesses are strategically committed and which it incorporates in its day to day operations.

Gender Composition of Directors and Officers

A breakdown of gender composition of Directors and Officers as at April 2017 is shown below:

	Female	Male
Directors	1	4
Officers*	1	5

**An Officer is defined as the members of the senior management team, who report either directly to the Board or to the Chief Executive Officer.*

The company does not have a formal Diversity Policy.



FINANCIAL INFORMATION

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Accounting policies are shown in shaded areas for easier identification.

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Smiths City Group Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of Smiths City Group Limited (the company) and its subsidiaries (the Group) on pages 34 to 66:

- i. present fairly in all material respects the Group's financial position as at 30 April 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 April 2017;
- the consolidated income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the Group in relation to agreed upon procedures as required under the bank facility agreement and requested by management. Subject to certain restrictions, partners and employees of our firm may also deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group. These matters have not impaired our independence as auditor of the Group. The firm has no other relationship with, or interest in, the Group.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$440,000, determined with reference to a benchmark of Group revenue. We



chose the benchmark because of the historic variability in Group profit. In our view this represents a more stable measure of Group performance.

We agreed with the Audit Committee that we would report to them all audit differences in excess of \$22,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements.

The key audit matter

How the matter was addressed in our audit

Impairment of Inventory (\$0.9 million)

Refer to Note 12 of the Financial Statements.

The Group sells a large number of different products and product categories, with varying margins. The Group's strategy continues to focus on both the level and mix of inventory on hand. This has translated into a change in purchasing strategy from rebate to demand driven and also the exit of appliance only lower margin stores.

The possible impairment of inventory is inherently subjective due to the changes in product mix with varying margins and intense market competition. Additionally, inventory includes electronics which are subject to increased risk surrounding the future recoverability due to technology advances in future products.

Our audit procedures included:

- Comparing the actual sales price subsequent to year end for a sample of inventory products, to the weighted average cost of the item (being the method of costing used by the Group). This was to assess whether the inventory was being held at the lower of cost or net realisable value. We identified no instances where net realisable value was materially less than cost.
- Challenging the methodology applied to calculate the provision for inventory impairment. We checked, on a sample basis, items on the stock listing against sales during FY17 for items with a negative margin or future planned price reductions in upcoming promotions. We identified no significant exceptions.
- Comparing the listing of inventory items to sales transactions during the year to identify any items which had no sales transactions, and would not be captured in the above negative margin test. No significant items were identified.
- Assessing the level of inventory provision at year end by comparing to actual losses recognised during the current and historical years. The provision raised in FY16 was reflective of actual losses incurred by the Group during the FY17 year.

Finance Receivables Carrying Value (\$63.1 million)

Refer to Note 13 of the Financial Statements.

The finance offering remains a strategic product of the Group in the extension of the retail transaction with customers.

The carrying value of the Group's finance receivables is subject to

Our audit procedures included:

- Evaluating the standard terms and conditions of the finance agreements to ensure the recognition of finance receivables reflects these terms and conditions. We did not identify any inconsistencies.
- Evaluating procedures and controls at the origination of finance receivables to ensure sufficient information is being captured on the borrower and also that credit checks are being

The key audit matter

How the matter was addressed in our audit

complexities inherent in determining the amount recognised:

- a number of different finance arrangements are employed, including some with interest free and deferred payment periods which may be offered to facilitate retail sales;
- when a finance receivable agreement is entered into management are required to make an assessment of whether the interest rate terms of the agreement represent market rates. To the extent that the interest rate is lower than the market rate, the carrying value of the finance receivable is reduced to reflect this.
- assessment of the estimated future cash receipts through the expected life of the finance receivables, to calculate the provision for non-collectability.

performed. We did not identify any inconsistencies with company policies.

- Comparing market interest rates for similar finance receivables to assess the requirement for any adjustment to carrying value on initial recognition. Such an adjustment is required if the interest rate on finance receivables is below the market rate for comparable products. We identified no further adjustments to raise.
- Comparing the current year's aging profile of overdue finance receivables against prior years to ensure that the credit quality had not significantly deteriorated. Then comparing the level historical loss rates on finance receivables against the current year impairment provision. We also obtained the aging profile of finance receivables subsequent to year end and considered if there were any indicators of deterioration. We did not identify any material issues or exceptions from our procedures.
- Evaluating management's methodology and assumptions associated with interest recognition on finance receivables with interest free periods. We did not identify any material adjustments.



Other Information

The Directors, on behalf of the Group, are responsible for the other information included in the entity's Annual Report. Other information may include the Company profile, Chairman's review, Chief Executive's review, disclosures relating to corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the consolidated financial statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Independent Auditor's Report.



Peter Taylor

For and on behalf of

KPMG

Christchurch

20 June 2017

SMITHS CITY GROUP LIMITED

INCOME STATEMENT

FOR THE YEAR ENDED 30 APRIL 2017

	NOTE	2017 (\$m)	2016 (\$m)
Revenue	5	227.4	221.9
Trading Profit	4, 6	2.0	1.3
Gain On Sale Of Property	7	-	1.8
Profit Before Taxation	4	2.0	3.1
Taxation	9	0.4	2.5
Profit For The Year		2.4	5.6
Earnings Per Share For Profit Attributable To Equity Holders:			
Basic and Diluted Earnings Per Share (cents)	21	4.5	10.6

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 APRIL 2017

	NOTE	2017 (\$m)	2016 (\$m)
Profit For The Year		2.4	5.6
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	19	0.7	(1.0)
Cash Flow Hedges – Deferred Tax	16	(0.2)	0.3
Total Other Comprehensive Income		0.5	(0.7)
Total Comprehensive Income For The Period Attributable To Members Of The Company		2.9	4.9

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 APRIL 2017

	SHARE CAPITAL	REVALUATION RESERVES	HEDGING RESERVES	OTHER RESERVES	RETAINED EARNINGS	TOTAL EQUITY	NON CONTROLLING INTERESTS	TOTAL EQUITY
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
Balance 1 May 2015	10.7	3.0	(0.7)	0.1	36.3	49.4	0.2	49.6
Prior Period Adjustment*	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Adjusted Balance 1 May 2015	10.7	3.0	(0.7)	0.1	35.9	49.0	0.2	49.2
Profit For The Year	-	-	-	-	5.6	5.6	-	5.6
Transferred On Sale Of Property	-	(3.0)	-	-	3.0	-	-	-
Cash Flow Hedges – Fair Value Gains/(Losses) Taken To Cash Flow Hedge Reserve	-	-	(1.0)	-	-	(1.0)	-	(1.0)
Cash Flow Hedges – Deferred Tax	-	-	0.3	-	-	0.3	-	0.3
Transferred On Stepped Acquisition	-	-	-	-	0.2	0.2	(0.2)	-
Total Comprehensive Income For Period*	-	(3.0)	(0.7)	-	8.8	5.1	(0.2)	4.9
Subtotal	10.7	-	(1.4)	0.1	44.7	54.1	-	54.1
Dividends Paid	-	-	-	-	(1.8)	(1.8)	-	(1.8)
Balance 30 April 2016*	10.7	-	(1.4)	0.1	42.9	52.3	-	52.3
Profit For The Year	-	-	-	-	2.4	2.4	-	2.4
Cash Flow Hedges – Fair Value Gains/(Losses) Taken To Cash Flow Hedge Reserve	-	-	0.7	-	-	0.7	-	0.7
Cash Flow Hedges – Deferred Tax	-	-	(0.2)	-	-	(0.2)	-	(0.2)
Total Comprehensive Income For Period	-	-	0.5	-	2.4	2.9	-	2.9
Subtotal	10.7	-	(0.9)	0.1	45.3	55.2	-	55.2
Dividends Paid	-	-	-	-	(1.8)	(1.8)	-	(1.8)
Balance 30 April 2017	10.7	-	(0.9)	0.1	43.5	53.4	-	53.4

*Refer to Note 29 for further information in respect of the restatement in 2015.

STATEMENT OF FINANCIAL POSITION AS AT 30 APRIL 2017

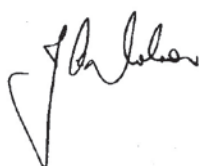
	NOTE	2017 (\$m)	2016* (\$m)
CURRENT ASSETS			
Cash And Cash Equivalents	10	12.0	8.7
Trade And Other Receivables	11	10.1	9.7
Finance Business Receivables – Current Portion	13	36.1	41.3
Inventories	12	36.3	40.4
TOTAL CURRENT ASSETS		94.5	100.1
NON CURRENT ASSETS			
Finance Business Receivables – Term Portion	13	27.0	25.3
Property, Plant And Equipment	14	4.3	3.6
Intangible Assets	15	2.3	2.4
Deferred Taxation	16	5.0	4.9
TOTAL NON CURRENT ASSETS		38.6	36.2
TOTAL ASSETS		133.1	136.3
CURRENT LIABILITIES			
Trade And Other Payables Including Derivatives*	17	26.4	27.8
FINANCE BUSINESS NON CURRENT BORROWINGS	18	53.3	56.2
TOTAL LIABILITIES		79.7	84.0
NET ASSETS		53.4	52.3
SHAREHOLDERS' FUNDS			
Share Capital	19	10.7	10.7
Other Reserves	19	(0.8)	(1.3)
Retained Earnings		43.5	42.9
TOTAL EQUITY		53.4	52.3
Net Tangible Assets Per Share (cents)		97cents	95cents

*Refer to Note 29 for further information in respect of the restatement in 2015.

Dated 20 June 2017



C D BOYCE
CHAIRMAN



J A DOBSON
DEPUTY CHAIRMAN

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 APRIL 2017

	NOTE	2017 (\$m)	2016 (\$m)
CASH FLOWS FROM OPERATING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Receipts From Customers		211.9	213.0
Interest Received – Finance Business		5.8	6.8
Interest Received – Other		0.2	0.1
Total Cash Flows From Operating Activities		217.9	219.9
CASH WAS APPLIED TO:			
Payments To Suppliers And Employees		(207.3)	(205.3)
Income Tax Paid		(0.2)	-
Interest Paid – Finance Business		(3.4)	(4.0)
Interest Paid – Bank And Other		(0.2)	(0.9)
Total Cash Flows Applied To Operating Activities		(211.1)	(210.2)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		6.8	9.7
CASH FLOWS FROM INVESTING ACTIVITIES			
CASH WAS PROVIDED FROM:			
Repayment Of Advances From Customers		3.6	2.1
Disposal of Property	7, 14	-	19.6
Total Cash Flows From Investing Activities		3.6	21.7
CASH WAS APPLIED TO:			
Acquisition Of Business		-	(5.3)
Purchase Of Property, Plant And Equipment		(2.4)	(1.3)
Total Cash Flows Applied to Investing Activities		(2.4)	(6.6)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		1.2	15.1
CASH FLOWS FROM FINANCING ACTIVITIES			
CASH WAS APPLIED TO:			
Repay Advances To Fund Finance Receivables		(2.9)	(1.2)
Repay Borrowings		-	(16.2)
Dividends Paid	20	(1.8)	(1.8)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES		(4.7)	(19.2)
Net Inflow/(Outflow) In Cash And Cash Equivalents Held		3.3	5.6
Cash And Cash Equivalents At Beginning Of Period	10	8.7	3.1
Cash And Cash Equivalents At End Of Period	10	12.0	8.7

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 30 APRIL 2017

	NOTE	2017 (\$m)	2016 (\$m)
RECONCILIATION OF NET PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Taxation		2.0	3.1
Less Gain On Sale Of Property Reflected In Investing Activities		-	(1.8)
Add Depreciation; Amortisation And Impairment	14, 15	1.8	1.6
		3.8	2.9
Add/(Deduct) Movements In Working Capital			
Add Decrease (Deduct Increase) Receivables		(0.5)	1.2
Add Decrease (Deduct Increase) Inventories		4.1	5.9
Add Increase (Deduct Decrease) Accounts Payable And Provisions		(0.6)	(0.3)
Movements In Working Capital		3.0	6.8
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		6.8	9.7

The following are the definitions of the terms used in the statements of cash flows:

- Cash comprises cash and bank balances including Finance Business.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, investments along with advances and repayments from borrowers from Finance Business.
- Financing activities are those activities which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid are included in financing activities.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Certain comparatives have been restated to be consistent with the presentation of the cash flows this year.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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 FMC Entity in terms of the Financial Markets Conduct Act 2013.

Financial statements of Smiths City Group Limited for the year ended 30 April 2017 comprise the company and its subsidiaries (together referred to as the "Group"). Financial statements have been prepared in accordance with the requirements of the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

Smiths City Group Limited is primarily involved in the retailing of consumer electronic products, kitchen appliances, home heating solutions, home furnishings and sporting goods together with the provision of finance to support the retailing operations.

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").

The financial statements were approved by the Board of Directors on 20 June 2017.

b) Basis of Measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value (refer Note 22).

c) Functional and Presentation Currency

The financial statements are presented in New Zealand dollars (\$) which is the functional currency of the Group. All financial information presented in New Zealand dollars has been rounded to the nearest million unless otherwise stated.

d) 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.

The areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are:

- Smiths City Finance ("Finance Business") receivables are initially recognised in accordance with the accounting policy outlined in Note 13.
- The impairment of finance receivables is based on management's assessment of any objective evidence of impairment on an individual and collective basis, which takes into account the historical loss experience in the portfolio of finance receivables as described in Note 22.
- Unearned income on fixed instalment contracts is recognised when these contracts are assessed as likely to become interest bearing. This involves judgement on the probability that contracts will enter an extended interest bearing period. This assessment is based on historical data. Accordingly, advance releases from unearned income are calculated on this basis and assessed regularly by management.
- Inventories are measured at the lower of cost and net realisable value and are recorded net of all volume rebates and settlement discounts, as disclosed in Note 12.

Further information about the assumptions made in measuring fair values is included in the following notes:

Note 22 – Financial Instruments:

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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities.

a) Basis of Consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii) Transactions Eliminated on Consolidation

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

b) Foreign Currency Transactions

Transactions in foreign currencies are converted to NZD at exchange rates at the dates of the transactions unless the transactions are hedged by foreign currency derivative instruments. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All exchange gains and losses are recognised in the income statement in the period that they arise, except for qualifying cash flow hedges, which are recognised in other comprehensive income.

c) Financial Instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are no longer recognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date – i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are no longer recognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

i) Non Derivative Financial Instruments

Non derivative financial instruments comprise Finance Business receivables, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. All non derivative financial instruments are initially recognised at fair value.

d) Goods and Services Tax (GST)

The income statement and statement of cash flow have been prepared exclusive of GST. All items in the balance sheet are stated net of GST with the exception of trade and finance receivables and trade payables, which include GST invoiced.

e) New 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 financial statements.

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.

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.

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.

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.

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.

More information on finance income is included in Note 5 and finance costs in Note 8. Furthermore information on finance receivables is included in Note 13 and finance receivables borrowings in Note 18. Note 22 includes further disclosures on credit and liquidity risk and interest rate risk associated with the financing of the Group's retail sales.

Segment Revenue and Profit Analysis

	REVENUE FROM EXTERNAL CUSTOMERS (\$m)	INTER SEGMENT REVENUE (\$m)	TOTAL SEGMENT REVENUE (\$m)	SEGMENT TRADING PROFIT (LOSS) (\$m)
YEAR ENDED 30 APRIL 2016				
Retail Activities	211.6	-	211.6	0.9
Finance Business	10.3	-	10.3	3.0
Property Activities	-	0.7	0.7	0.4
Parent Company	-	-	-	(0.5)
Total Reportable Segments	221.9	0.7	222.6	3.8
Abnormal Items*	-	-	-	(2.5)
Trading Profit	-	-	-	1.3
Sale Of Colombo Street Property (See Note 14)	-	-	-	1.8
Profit Before Taxation	-	-	-	3.1
YEAR ENDED 30 APRIL 2017				
Retail Activities	218.2	-	218.2	0.7
Finance Business	9.2	-	9.2	3.7
Property Activities	-	-	-	(0.2)
Parent Company	-	-	-	(0.8)
Total Reportable Segments	227.4	-	227.4	3.4
Abnormal Items*	-	-	-	(1.4)
Profit Before Taxation	-	-	-	2.0

*Abnormal items relate firstly to costs associated with store closures; secondly employee restructuring; and thirdly the cost of an alteration of the way the Group approaches purchasing and supply chain management.

Other Segment Information

	RETAIL ACTIVITIES (incl Parent) (\$m)	FINANCE ACTIVITIES (\$m)	PROPERTY ACTIVITIES (\$m)	TOTAL (\$m)
YEAR ENDED 30 APRIL 2016				
Assets (including Bank Balances)	67.8	68.5	-	136.3
Liabilities	(27.8)	(56.2)	-	(84.0)
Equity	(40.0)	(12.3)	-	(52.3)
Acquisitions Of Property, Plant, Equipment, Intangibles And Investments	3.0	-	-	3.0
Disposals of Property, Plant And Equipment	(0.4)	-	(17.8)	(18.2)
Depreciation, Amortisation And Impairment	(1.6)	-	-	(1.6)
Interest Expense	(0.6)	(4.0)	(0.3)	(4.9)
Interest Revenue	0.1	10.3	-	10.4
YEAR ENDED 30 APRIL 2017				
Assets (Including Bank Balances)	66.4	66.7	-	133.1
Liabilities	(26.4)	(53.3)	-	(79.7)
Equity	(40.0)	(13.4)	-	(53.4)
Acquisitions Of Property, Plant, Equipment, Intangibles And Investments	(2.4)	-	-	(2.4)
Disposals of Property, Plant And Equipment	-	-	-	-
Depreciation, Amortisation And Impairment	(1.8)	-	-	(1.8)
Interest Expense	(0.2)	(3.4)	-	(3.6)
Interest Revenue	0.2	9.2	-	9.4

The reportable operating segments of the Group have been determined based on the components of the Group that the chief operating decision maker (CODM) monitors in making decisions about operating matters. Such components have been identified on the basis of internal reports that the CODM reviews regularly in order to allocate resources and to assess the performance of the entity. The Group has determined that the CODM is the Chief Executive Officer in conjunction with the Board of Directors.

5. REVENUE

	2017 (\$m)	2016 (\$m)
Retail Sales *	218.2	211.6
Interest Income On Finance Business Receivables Measured At Amortised Cost	9.2	10.3
	227.4	221.9

*Includes sales of Adventure Brands of \$0.2m (2016 \$1.9m).

Accounting Policy - Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods. Retail sales are recognised when the Group sells a product to the customer. Where such products are required to be installed, sales revenue is recognised when the product is installed.

Finance income comprises income on Finance Business receivables and interest income on funds invested.

Income on Finance Receivables

Income on finance receivables is recognised using the effective interest method calculated on the net amount outstanding. The effective interest rate is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset.

The calculation of the effective interest rate includes all fees that are integral to the effective interest rate. All fees except those charged to customers accounts in arrears are considered to be integral to the effective interest rate. Fees charged to customer accounts in arrears are recognised as income at the time the fees are charged.

Income of Finance Business finance receivables is included as part of revenue.

Interest Income on Funds Invested

Interest income is recognised on a time proportionate basis using the effective interest method, which takes into account the effective yield on the financial asset

6. EXPENSES BY NATURE

The following expenses have been included in arriving at Trading Profit.

	2017 (\$m)	2016 (\$m)
Purchases Net Of Rebates	150.6	150.1
Movement In Inventory	3.9	1.7
Operating Lease Rental Expense*	16.3	15.0
Employee Benefits*	32.4	33.4
Marketing Expenses*	6.2	4.1
Utilities Expenses*	2.3	2.7
Insurance Expenses*	1.2	1.5
Auditor's Services	0.1	0.1
Directors' Fees	0.3	0.3

*The 2017 financial year is the first full year of Auckland stores acquired as part of the purchase of operating assets from Furniture City in April 2016. Accordingly, expenses for 2017 reflect the first full years trading.

Accounting Policy – Expenses

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Deferred Landlord Contributions

Landlord contributions to fit out costs are capitalised as deferred contributions and amortised to the income statement over the initial period of the lease.

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the term of the lease.

7. GAIN ON SALE OF PROPERTY

During the year ended 30 April 2016 the Colombo Street property was sold to a third party and the Group entered into a lease back arrangement on normal commercial terms.

The sale of the property realised \$19.6m after costs and resulted in a gain over its \$17.8m carrying value of \$1.8m which is reflected in the result for last year. Furthermore the revaluation reserve of \$3m was realised and transferred to retained earnings as a result of the sale.

8. INTEREST EXPENSE

	2017 (\$m)	2016 (\$m)
Included in Trading Profit		
Interest Expense On Finance Business Borrowings	3.4	4.0
Interest Expense On Bank Borrowings On Property And Retail Activities	0.2	0.9

Accounting Policy – Interest Expense

Finance expenses comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables) and losses on hedging instruments that are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method. Note that Finance Business interest expense is included as part of Trading Profit – refer Note 6.

9. INCOME TAX EXPENSE

a) Income Tax Expense		
Current Tax	-	-
Deferred Tax (Charge)/Credit*	0.4	2.5
Total Deferred Tax (Charge)/Credit	0.4	2.5
b) Reconciliation Of Tax Expense To Tax Rate Applicable To Profits		
Profit Before Income Tax Expense	2.0	3.1
Tax at the Rate Of 28% (2016 28%)	(0.6)	(0.9)
- Tax Exempt Income (Property Gain)	-	0.5
- Benefit From Tax Loss Offset	-	(0.1)
Movement In Deferred Taxation Temporary Differences	1.0	3.0
Total Income Tax (Expense)/Credit	0.4	2.5
c) Imputation Credits		
There are no imputation credits available to equity holders of the company.		

*The deferred tax charge for the current period takes into account temporary differences between the carrying amount 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 \$5.7m, hence no income tax is payable.

Accounting Policy - Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

10. CASH AND CASH EQUIVALENTS

The effective interest rates on call and short term deposits in 2017 was 1.75% (2016 2.25%). The amounts on deposit are at call (2016 at call).

Refer Note 18 for details of the effective interest rate on the Bank overdraft together with security provided.

Accounting Policy – Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

11. TRADE AND OTHER RECEIVABLES

	2017 (\$m)	2016 (\$m)
Trade Receivables	4.2	4.5
Impairment Allowances	(0.1)	(0.1)
Net Trade Receivables	4.1	4.4
Other Receivables	6.0	5.3
Total Current Receivables	10.1	9.7

Effective Interest Rate

No interest is charged on trade receivables.

Fair Value

The fair value of trade and other receivables approximates their carrying value.

Refer to Note 22 for information on the credit risk associated with the trade receivables.

Trade and other receivables are recognised at cost less impairment losses.

Accounting Policy – Trade and Other Receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

For trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis and taking into account the historical loss experience in portfolios with a similar number of days overdue.

12. INVENTORIES

	2017 (\$m)	2016 (\$m)
Finished Goods	37.2	41.2
Write-down To Net Realisable Value	(0.9)	(0.8)
Net Inventories	36.3	40.4

Inventory adjustments are provided at period end for stock obsolescence. The amount of inventory sold during the year is reflected in cost of goods sold. The Group recognises inventory at the lower of cost and net realisable value (NRV). The amount of inventory subject to registered reservation of title claims total \$6.4m (2016 \$7.0m).

Accounting Policy – Inventory

Inventories are measured at the lower of cost and net realisable value and are recorded net of all volume rebates and settlement discounts. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing locations and condition being the acquisition cost, freight, duty and other inward charges. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

13. FINANCE BUSINESS RECEIVABLES

	2017 FIXED INSTALMENT (\$m)	2017 REVOLVING CREDIT (\$m)	TOTAL (\$m)	2016 FIXED INSTALMENT (\$m)	2016 REVOLVING CREDIT (\$m)	TOTAL (\$m)
Gross Finance Receivables	58.6	20.6	79.2	73.7	20.8	94.5
Provision For Unearned Income	(14.9)	-	(14.9)	(26.6)	-	(26.6)
	43.7	20.6	64.3	47.1	20.8	67.9
Less Impairment Allowances	(0.7)	(0.5)	(1.2)	(0.8)	(0.5)	(1.3)
	43.0	20.1	63.1	46.3	20.3	66.6
ANALYSIS						
Current Portion	28.6	7.5	36.1	34.6	6.7	41.3
Term Portion	14.4	12.6	27.0	11.7	13.6	25.3
	43.0	20.1	63.1	46.3	20.3	66.6

The table below details the geographic split of Finance Business receivables:

	2017 FIXED INSTALMENT %	2017 REVOLVING CREDIT %	2016 FIXED INSTALMENT %	2016 REVOLVING CREDIT %
North Island	25.6	26.8	23.6	27.1
South Island	74.4	73.2	76.4	72.9
	100.0	100.0	100.0	100.0

Refer to Note 22 for information on the credit risk associated with Finance Business receivables. A further breakdown of current and non current receivables is given as part of the liquidity risk disclosure.

Gross finance receivables includes all interest and finance related fees due under financing agreements.

The interest rate charged to customers on fixed instalment and flexible credit agreements varies. For those customers paying their accounts within the promotional term any interest paid is rebated to the customer and, accordingly, no interest is charged. However, for those customers whose accounts become interest bearing the rate charged is up to 23.95% per annum (2016 23.95%). Note that for contracts written since July 2016 interest is charged on the outstanding balance at the end of the promotional term. This has resulted in a reduction in unearned income compared to prior years. 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.

Accounting Policy – Finance Business Receivables

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Subsequent to initial recognition, Finance Business receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

For Finance Business and trade receivables which are not significant on an individual basis, impairment is assessed on a portfolio basis and taking into account the historical loss experience in portfolios with a similar number of days overdue.

14. PROPERTY, PLANT & EQUIPMENT

	LAND & BUILDINGS (\$m)	LEASEHOLD IMPROVEMENTS (\$m)	OFFICE & COMPUTER EQUIPMENT (\$m)	TOTAL (\$m)
Cost or Valuation				
Balance 1 May 2015	17.8	9.8	22.7	50.3
Additions	-	0.6	1.5	2.1
Disposals	(17.8)	(0.7)	(0.5)	(19.0)
Balance 30 April 2016	-	9.7	23.7	33.4
Balance 1 May 2016	-	9.7	23.7	33.4
Additions	-	0.9	0.9	1.8
Disposals	-	-	(0.1)	(0.1)
Balance 30 April 2017	-	10.6	24.5	35.1
Depreciation and Impairment Costs				
Balance 1 May 2015	-	(9.1)	(20.5)	(29.6)
Depreciation For The Year	-	(0.2)	(0.8)	(1.0)
Disposals	-	0.6	0.2	0.8
Balance 30 April 2016	-	(8.7)	(21.1)	(29.8)
Balance 1 May 2016	-	(8.7)	(21.1)	(29.8)
Depreciation For The Year	-	-	(1.1)	(1.1)
Disposals	-	-	0.1	0.1
Balance 30 April 2017	-	(8.7)	(22.1)	(30.8)
Carrying Amounts				
At 1 May 2015	17.8	0.7	2.2	20.7
At 30 April 2016	-	1.0	2.6	3.6
At 1 May 2016	-	1.0	2.6	3.6
At 30 April 2017	-	1.9	2.4	4.3

Details of property, plant and equipment pledged as security is referred to in Note 18.

i) Recognition and Measurement

During the year ended 30 April 2016 the Colombo Street property was sold to a third party and the Group entered into a lease back arrangement on normal commercial terms. (Refer Note 7).

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

ii) Subsequent Costs

The costs of the day to day servicing of property, plant and equipment are recognised in the income statement as incurred.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

iii) Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The depreciation methods for the current and comparative periods are as follows:

Leasehold Improvements	12.5% - 50% straight line
Office and computer equipment	10% - 20% straight line

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Accounting Policy – Property, Plant and Equipment

The fair value of property, plant and equipment recognised as a result of a business combination and land and buildings held are based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The carrying amounts of the Group's property, plant and equipment, intangible assets and subsidiaries and financial assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment, except that indefinite life intangible assets are tested annually and when impairment indicators exist.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

15. INTANGIBLE ASSETS

	PURCHASED BRANDS & CUSTOMER DATABASES (\$m)	SOFTWARE INCL DEVELOPMENT COSTS (\$m)	TOTAL (\$m)
Cost			
Balance 1 May 2015	1.9	5.2	7.1
Additions	0.4	-	0.4
Additions Internally Developed	-	0.5	0.5
Balance 30 April 2016	2.3	5.7	8.0
Balance 1 May 2016	2.3	5.7	8.0
Additions	-	-	-
Additions Internally Developed	-	0.6	0.6
Balance 30 April 2017	2.3	6.3	8.6
Amortisation and Impairment Costs			
Balance 1 May 2015	(1.3)	(3.7)	(5.0)
Impairment	-	-	-
Amortisation For The Year	(0.1)	(0.5)	(0.6)
Balance 30 April 2016	(1.4)	(4.2)	(5.6)
Balance 1 May 2016	(1.4)	(4.2)	(5.6)
Impairment	-	-	-
Amortisation For The Year	(0.2)	(0.5)	(0.7)
Balance 30 April 2017	(1.6)	(4.7)	(6.3)
Carrying Amounts			
At 1 May 2015	0.6	1.5	2.1
At 30 April 2016	0.9	1.5	2.4
At 1 May 2016	0.9	1.5	2.4
At 30 April 2017	0.7	1.6	2.3

The fair value of purchased brands and customer database is based on the discounted cash flows expected to be derived from the eventual sale of the assets.

i) Finite Life Intangible Assets

Finite Life Intangible Assets comprising purchased brands acquired, customer databases and computer software applications are capitalised on the basis of the costs incurred to acquire the customer database and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives.

Computer software development costs recognised as assets are amortised on a straight line basis over their estimated useful lives.

The estimated useful lives for the current and comparative periods are as follow:

Purchased Brands	20 years
Customer databases	20 years
Computer software applications	5 years
Development costs	5 years
Websites	5 years

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs.

Accounting Policy – Intangible Assets

The carrying amounts of the Group's property, plant and equipment, intangible assets and subsidiaries and financial assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment, except that indefinite life intangible assets are tested annually and when impairment indicators exist.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

16. DEFERRED TAX ASSETS AND LIABILITIES

Unrecognised Deferred Tax Assets

A deferred tax asset has not been recognised in respect of the unutilised tax losses.

	2017 (\$m)	2016 (\$m)
Unutilised Tax Losses	1.4	3.4
Unrecognised Deferred Tax Assets	0.4	1.0

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributed to the following (based on rebate, tax losses and fees):

	ASSETS		LIABILITIES		NET	
	2017 (\$m)	2016 (\$m)	2017 (\$m)	2016 (\$m)	2017 (\$m)	2016 (\$m)
Property, Plant And Equipment	0.1	0.2	-	-	0.1	0.2
Inventory	1.0	1.0	-	-	1.0	1.0
Receivables	1.5	1.2	-	-	1.5	1.2
Derivatives	0.3	0.5	-	-	0.3	0.5
Provisions	0.9	1.0	-	-	0.9	1.0
Tax Losses	1.2	1.0	-	-	1.2	1.0
	5.0	4.9	-	-	5.0	4.9

The company has considered the level of budgeted profits to be recognised in the calculation of the deferred tax asset. As part of this assessment the Directors have considered the likelihood of a change in shareholding and the historical performance of the company. As a result on this basis the company considers it is probable that future taxable profits will be available against which tax losses can be utilised.

Movement In Deferred Tax Balances During The Year

	BALANCE 30 April 2015 (\$m)	MOVEMENT (\$m)	BALANCE 30 April 2016 (\$m)	MOVEMENT (\$m)	BALANCE 30 April 2017 (\$m)
Property, Plant And Equipment	(3.0)	3.2	0.2	(0.1)	0.1
Inventory	1.0	-	1.0	-	1.0
Receivables	1.4	(0.2)	1.2	0.3	1.5
Derivatives	0.2	0.3	0.5	(0.2)	0.3
Provisions*	1.4	(0.4)	1.0	(0.1)	0.9
Tax Losses	1.1	(0.1)	1.0	0.2	1.2
	2.1	2.8	4.9	0.1	5.0

*Refer Note 29 for further information in respect of the Deferred Tax Impact of the restatement of 2015.

The movement in deferred tax on derivatives \$0.2m (2016 \$0.3m) has been recognised in other comprehensive income.

The Group has tax losses of \$5.7m (2016 \$6.9m) and no unrecognised temporary differences. The ability to utilise these tax losses in the future depends upon the generation of sufficient assessable income, shareholder continuity and any changes in legislation.

Accounting Policy – Deferred Tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

17. TRADE AND OTHER PAYABLES

	2017 (\$m)	2016 (\$m)
Trade Payable Due To Related Parties	0.2	0.1
Other Trade Payables	18.6	19.6
Derivatives	0.8	1.5
Non Trade Payables And Accrued Expenses*	6.8	6.6
	26.4	27.8

*Refer Note 29 for further information in respect of the Deferred Tax Impact of the restatement of 2015.

The fair value of trade and other payables approximates their carrying value. No interest is paid on the payables.

Accounting Policy – Trade and Other Payables

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Trade and other payables are stated at cost and the amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which are unpaid. These amounts are unsecured with the exception of those payables for which the supplier has a security interest over the inventory to which it relates and are usually paid within 60 days of recognition.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

18. LOANS AND BORROWINGS

The contractual terms of the Group's interest bearing loans and borrowings is set out below. Further information about the company's exposure to interest rate and foreign currency risk is set out in Note 22. Fair value is equal to carrying value.

	2017 (\$m)	2016 (\$m)
NON CURRENT LIABILITIES		
Secured Finance Business Loans	53.3	56.2
TOTAL INTEREST BEARING LIABILITIES	53.3	56.2

Terms And Debt Repayment Schedule

Terms and conditions of outstanding loans were as follows:

	NOMINAL INTEREST RATE	TERM	FACILITY (\$m)	CARRYING AMOUNT 2017 (\$m)	FACILITY (\$m)	CARRYING AMOUNT 2016 (\$m)
	30 Day					
Senior Secured Facility	BBR plus 2%	see note (i) below	65.0	53.3	65.0	56.2
Secured Bank Overdraft	BBR plus 1.1%	See note (ii) below	2.0	-	2.0	-
Total Interest Bearing Liabilities			67.0	53.3	67.0	56.2

Total Interest Bearing Liabilities

- i) In February 2017 the ASB Bank Limited replaced ANZ Banking Group as the Group's financier and provider of transactional banking facilities. The Group's financial indebtedness was refinanced by ASB Bank Limited as part of this transition. The senior secured facility is secured firstly by way of fixed and floating charge over both the Finance Business Receivables and, secondly, over all other assets of the Group. The loan is subject to various covenants including a capital ratio. The facility is for a two year term although it can be extended subject to agreement with the lender.
- ii) The secured bank overdraft is also secured by a fixed and floating charge over all the Group's assets. The loans are also subject to various covenants and capital ratios. The facility is for a two year term although it can be extended subject to agreement with the lender.

Accounting Policy – Loans and Borrowings

Loans and borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Fair value is calculated based on the present value of contractual cash flows, discounted at the market rate of interest at the reporting date.

19. CAPITAL AND RESERVES

Share Capital

At balance date the Group and Parent had issued and paid up capital of \$10.7m (2016 \$10.7m). The number of shares issued is 52,688,153 (2016 52,688,153). All shares are fully paid up and have equal voting and dividend rights. Upon winding up all shares rank equally with regard to the Group's residual assets.

Revaluation Reserve

The revaluation reserve which related to the revaluation of property was transferred to retained earnings upon the sale of the Colombo Street property and this is reflected in the Statement of Comprehensive Income. Refer also Note 14.

Hedging Reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Refer also Note 22 for details of foreign currency and interest rate hedging instruments.

Other Reserves

These relate to realised capital profits on disposal of assets.

20. DIVIDENDS

The following dividends were declared and paid by the Group for the year ended 30 April:

	Cents Per Share		Total Paid	
	2017	2016	2017 (\$m)	2016 (\$m)
Interim For Year Ending 30 April 2017	1.0		0.5	
Final For Year Ending 30 April 2016	2.5		1.3	
Interim For Year Ending 30 April 2016		1.0		0.5
Final For Year Ending 30 April 2015		2.5		1.3
	3.5	3.5	1.8	1.8

The Interim Dividend for year ending 30 April 2017 was fully imputed. Prior to this all dividends were unimputed.

On 20 June 2017 the Directors resolved to pay a dividend of 2.5cents per share (fully imputed) on Friday 11 August 2017 (2016 2.5cents).

21. EARNINGS PER SHARE

The calculation of basic earnings per share at 30 April 2017 was based on the profit after tax attributable to ordinary shareholders of \$2.0m (2016 \$3.1m) and an average number of ordinary shares outstanding of 52,688,153 (2016 52,688,153). Basic earnings per share is the same as dilutive earnings per share as there are no ordinary shares outstanding that have any dilutive potential.

Accounting Policy – Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

22. FINANCIAL INSTRUMENTS

Exposure to credit, interest rate, foreign currency and liquidity risks arises in the normal course of the Group's business.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade and finance receivables.

Management has a credit policy in place under which each new customer is individually assessed for credit worthiness before credit is granted applying to trade accounts, fixed instalment agreements and/or revolving credit accounts. This includes the obtaining of deposits and ensuring adequate insurance cover is in place for items supplied on credit terms. The Group also reviews external ratings as part of this process.

There are levels of authorisation for granting credit within the Group. These are allocated to the credit officers or the head of the credit team. Larger loans and facilities require approval by the Chief Executive Officer, Chief Financial Officer or in some cases, the General Managers.

In order to determine which customers are classified as having payment difficulties, the Group applies a mix of duration and frequency of default. The Group does require collateral in respect of the finance receivables being the goods themselves and if considered necessary will register a security interest against them.

Categories are utilised by the Group to classify exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. Categories are used to determine where impairment allowances are required.

The credit risk framework consists of the following categories reflecting varying degrees of risk of default and the availability of collateral or other risk mitigation. Categories are also subject to regular reviews by the credit team.

Credit Risk Category		Description
Current	Low risk	Compliance with all terms
In arrears	Fair risk	Non compliance but follow up action underway
Arrangement	Low/fair risk	Non compliance but a payment plan in place
Insurance Claim	Low/fair risk	Non compliance but account insured
Collection/Repossession	Impaired	Action being taken to enforce security
Legal Action	Impaired	Action being taken to enforce security

Regular internal audits of finance receivables by an independent professional audit firm are undertaken for the financier of the ledger. All credit policies and procedures are subject to review by the Audit Committee who also receive quarterly reports on the ledgers, arrears levels and impairment losses.

The Group's exposure to credit risk is mainly influenced by its customer base. As such it is concentrated to the default risk of the retail sector in New Zealand. There are no individually significant exposures to any one customer or group of related customers. There are no significant related party finance receivables.

Investments are allowed only in liquid securities and only with counterparties that have an investment grade rating. In addition the Group has established counterparty limits for investments and derivatives depending on their rating. Transactions involving derivative financial instruments are with counterparties who have sound credit ratings.

Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity risk on an ongoing basis. Day to day funding requirements and future cash flows are monitored to ensure requirements can be met. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover shortfalls. Furthermore the Group maintains strong bank relationships and committed bank credit facilities.

Market Risk

The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency and interest rate risks. The Board of Directors provides oversight for risk management and derivative activities. This includes determining the Group's financial risk policies and objectives, guidelines for derivative instrument utilisation, procedures for control and valuation, risk analysis, counterparty credit approval and ongoing monitoring and reporting.

Foreign Currency Risk

The Group is exposed to foreign currency risks on purchases that are denominated in a currency other than the company's functional currency, New Zealand Dollars (\$), which is the presentation currency of the Group. The overseas currency in which transactions are denominated is US Dollars (USD). The Group hedges up to 100% of its estimated foreign currency exposure in respect of forecasted purchases over the following 12 months. The Group uses forward exchange contracts to hedge its foreign currency risk. Most of the forward exchange contracts have maturities of less than one year at the balance sheet date.

The fair value of forward exchange contracts is based on broker quotes. If a quote is not available then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

Interest Rate Risk

The Group has a policy of ensuring that interest rate exposure on term borrowings (or core debt) shall be fixed forward for 12 months for a minimum of 45% of total exposure and up to a maximum of 100%.

Interest rate exposure on Finance Business borrowings is to be fixed forward to mirror the profile of the receivables portfolio for those receivables whose interest rate is fixed at the point the contract is originated. The minimum exposure of these receivables hedged is 75% up to a maximum of 100%.

Based on independent advice received monthly, interest rate swaps have been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy for both its core debt and Finance Business.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Other Market Price Risks

The Group is not exposed to substantial other market price risk arising from financial instruments.

QUANTITATIVE DISCLOSURES

Credit Risk

The carrying amount of financial assets represents the Group's maximum credit exposure. The Group's material credit risk arises from finance receivables. The Group has not renegotiated the term of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status. The Group has not restructured financial assets. The status of trade and finance receivables at reporting date is as follows:

Trade Receivables

Trade receivables comprise sales made to customers on credit through the Group's trades based businesses or through the collection of purchasing volume or advertising rebates from suppliers not otherwise deducted from suppliers payable accounts.

	GROSS RECEIVABLE 2017 (\$m)	IMPAIRMENT 2017 (\$m)	GROSS RECEIVABLE 2016 (\$m)	IMPAIRMENT 2016 (\$m)
Not Past Due	3.3	-	3.3	-
Past Due 1-30 Days	0.6	-	0.4	-
Past Due 31-60 Days	0.2	-	0.6	-
Past Due Over 61 Days	0.1	(0.1)	0.2	(0.1)
	4.2	(0.1)	4.5	(0.1)
ANALYSIS				
Trade Receivables – Trades Based Customers*	-	-	0.4	-
Other Receivables Including Monthly Account Customers	4.2	(0.1)	4.1	(0.1)
	4.2	(0.1)	4.5	(0.1)

*These previously related to the installation and service operation which was exited during the year ended 30 April 2016.

Individually impaired trade receivables relate to delinquent customers. In the case of delinquency the Group writes off the receivable unless there is clear evidence that a receipt is highly probable.

Fixed Instalment Receivables

	ACCOUNT BALANCE %	2017 ACCOUNT BALANCE (\$m)	IMPAIRMENT (\$m)	ACCOUNT BALANCE %	2016 ACCOUNT BALANCE (\$m)	IMPAIRMENT (\$m)
Current	90.2	39.4	-	88.5	41.7	-
1 Month Overdue	4.1	1.8	-	4.7	2.2	-
2 Month Overdue	1.5	0.6	-	1.7	0.8	-
3 Month Overdue	0.6	0.3	-	0.6	0.3	-
Over 3 Month Overdue	3.6	1.6	(0.7)	4.5	2.1	(0.8)
	100.0	43.7	(0.7)	100.0	47.1	(0.8)

Revolving Credit Receivables (Excluding Receivables Due From Adventure Brands Limited)

		2017			2016	
	ACCOUNT BALANCE %	ACCOUNT BALANCE (\$m)	IMPAIRMENT (\$m)	ACCOUNT BALANCE %	ACCOUNT BALANCE (\$m)	IMPAIRMENT (\$m)
Current	73.9	15.2	-	75.5	15.7	-
1 Month Overdue	17.8	3.7	-	16.3	3.4	-
2 Month Overdue	4.2	0.9	-	3.4	0.7	-
3 Month Overdue	1.0	0.2	-	1.0	0.2	-
Over 3 Month Overdue	3.1	0.6	(0.5)	3.8	0.8	(0.5)
	100.0	20.6	(0.5)	100.0	20.8	(0.5)

Impaired Finance Receivables

Impaired finance receivables are those for which the Group determines that there is objective evidence that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. These loans are treated as subject to collection, repossession or legal action in the Group's internal credit risk grading system.

Past Due But Not Impaired

Finance receivables where contractual interest or principal repayments are past due but the Group believes that impairment is not appropriate based on the stage of collection of amounts owed to the Group or the level of security/collateral available. These loans are treated as under arrangement.

Allowances for Impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its finance receivables portfolio. The main component of this allowance is a specific loss component that relates to individual exposures which is identified on loans subject to individual assessment for impairment.

Write Off Policy

The Group writes off a receivable (and any related allowances for impairment losses) when management determines that the loan is uncollectible. This determination is reached after collection procedures have proved unsuccessful, the occurrence of significant changes in borrowers position such that the borrower can no longer pay the obligation, or that the proceeds from the collateral and/or insurance claim will not be sufficient to pay back the entire obligation.

Collateral

The Group is able to repossess goods supplied on all its consumer loans and in certain cases holds registered security interests and guarantees.

Impaired Assets Provision

	2017				2016			
	TRADE RECEIVABLES	FIXED INSTALMENT RECEIVABLES	REVOLVING CREDIT RECEIVABLES	TOTAL	TRADE RECEIVABLES	FIXED INSTALMENT RECEIVABLES	REVOLVING CREDIT RECEIVABLES	TOTAL
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
<u>Impaired Assets Provision</u>								
Opening Balance	0.1	0.8	0.5	1.4	0.7	0.8	0.5	2.0
Movement In Provision For Impairment	-	(0.1)	-	(0.1)	(0.6)	-	-	(0.6)
Closing Balance	0.1	0.7	0.5	1.3	0.1	0.8	0.5	1.4
<u>Impaired Asset Expense</u>								
Impairment Charges On Uncollectable Accounts	-	0.3	0.2	0.5	0.6	0.4	0.2	1.2
Recoveries From Accounts Previously Written Off	-	(0.1)	-	(0.1)	-	(0.1)	-	(0.1)
Impaired Assets Charge Included In Store And Distribution Expenses	-	0.2	0.2	0.4	0.6	0.3	0.2	1.1

LIQUIDITY RISK

The following table sets out the contractual cash flows for all financial assets, liabilities and derivatives that are settled on a gross cash flow basis. Note the table below excludes inventory.

Residual Contractual Maturities Of Financial Assets And Liabilities

	BALANCE SHEET	CONTRACTUAL CASH FLOWS	6 MTHS OR LESS	6-12 MTHS	1-2 YRS	MORE THAN 2 YRS
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
2017						
Non Derivative Assets						
Cash And Cash Equivalents	12.0	12.0	12.0	-	-	-
Trade And Other Receivables	10.1	10.1	10.1	-	-	-
Fixed Instalment Receivables	43.0	61.6	17.0	16.0	21.6	7.0
Revolving Credit Receivables *	20.1	62.0	3.5	3.3	6.3	48.9
Total Non Derivative Assets	85.2	145.7	42.6	19.3	27.9	55.9
<i>* Note based on minimum repayment profile of these receivables.</i>						
Non Derivative Liabilities						
Finance Business Borrowings	(53.3)	(57.4)	(1.1)	(1.1)	(55.2)	-
Trade And Other Payables	(26.4)	(26.4)	(26.4)	-	-	-
Total Non Derivative Liabilities	(79.7)	(83.8)	(27.5)	(1.1)	(55.2)	-
Interest Rate Swaps – Out Flow	(0.8)	(0.8)	(0.1)	(0.1)	(0.6)	-
Forward Exchange Contracts – Out Flow	(0.1)	(0.1)	(0.1)	-	-	-
TOTAL	4.6	61.0	14.9	18.1	(27.9)	55.9

	BALANCE SHEET	CONTRACTUAL CASH FLOWS	6 MTHS OR LESS	6-12 MTHS	1-2 YRS	MORE THAN 2 YRS
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
2016						
Non Derivative Assets						
Cash And Cash Equivalents	8.7	8.7	8.7	-	-	-
Trade And Other Receivables	9.7	9.7	9.7	-	-	-
Fixed Instalment Receivables	46.3	79.0	19.6	19.0	29.2	11.2
Revolving Credit Receivables *	20.3	62.0	3.7	3.4	6.3	48.6
Total Non Derivative Assets	85.0	159.4	41.7	22.4	35.5	59.8
<i>* Note based on minimum repayment profile of these receivables.</i>						
Non Derivative Liabilities						
Finance Business Borrowings	(56.2)	(57.8)	(30.7)	(15.7)	(10.4)	(1.0)
Trade And Other Payables	(27.8)	(27.8)	(27.8)	-	-	-
Total Non Derivative Liabilities	(84.0)	(85.6)	(58.5)	(15.7)	(10.4)	(1.0)
Interest Rate Swaps – Out Flow	(1.3)	(1.3)	-	(0.1)	(1.2)	-
Forward Exchange Contracts – Out Flow	(0.3)	(0.3)	(0.2)	(0.1)	-	-
TOTAL	(0.6)	72.2	(17.0)	6.5	23.9	58.8

The contractual maturity of financial assets and liabilities is shown above. However, the Group's expected cash flows on these instruments, specifically fixed instalment receivables, vary significantly from their contractual cash flows.

Expected Maturities Of Financial Assets And Liabilities

	BALANCE SHEET	6 MTHS OR LESS	6-12 MTHS	1-2 YRS	MORE THAN 2 YRS
	(\$m)	(\$m)	(\$m)	(\$m)	(\$m)
GROUP 2017					
Fixed Instalment Receivables	43.0	12.0	16.5	12.4	2.1
GROUP 2016					
Fixed Instalment Receivables	46.3	19.8	14.9	9.8	1.8

The only expected difference in maturity is in relation to receivables.

FOREIGN CURRENCY RISK

The Group's exposure to foreign currency risk can be summarised as follows:

	AVERAGE EXCHANGE RATE 2017	AVERAGE EXCHANGE RATE 2016	FOREIGN CURRENCY 2017 (\$m)	FOREIGN CURRENCY 2016 (\$m)	CONTRACT VALUE 2017 (\$m)	CONTRACT VALUE 2016 (\$m)	FAIR VALUE 2017 (\$m)	FAIR VALUE 2016 (\$m)
Outstanding Contracts								
Buy US Dollars								
Less Than 3 Months	0.69	0.70	1.1	1.4	1.6	2.1	-	(0.1)
3-6 Months	0.71	0.64	0.8	1.3	1.1	2.1	(0.1)	(0.1)
6-12 Months	0.70	0.65	0.9	1.2	1.3	1.8	-	(0.1)
							(0.1)	(0.3)

The Group has no significantly unhedged foreign currency exposures.

The value of forward exchange contracts outstanding are recognised in trade and other payables. Cash flow hedge accounting has been adopted.

INTEREST RATE RISK

Interest Rate Swap Contracts

Under the interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on debt held. The fair value of interest rate swaps are based on market values of equivalent instruments at reporting date.

	AVERAGE CONTRACT FIXED INTEREST RATE 2017	AVERAGE CONTRACT FIXED INTEREST RATE 2016	NOTIONAL PRINCIPAL AMOUNT 2017 (\$m)	NOTIONAL PRINCIPAL AMOUNT 2016 (\$m)	FAIR VALUE 2017 (\$m)	FAIR VALUE 2016 (\$m)
Outstanding Contracts						
Variable Rate For Fixed Contracts						
Less Than 1 Year	4.58%	2.92%	23.3	-	(0.2)	-
1-2 Years	4.71%	4.31%	20.8	3.0	(0.6)	(0.7)
More Than 2 Years	0.0%	4.55%	-	48.5	-	(0.6)
			44.1	51.5	(0.8)	(1.3)

In the current and prior financial year the above financial instruments relate to a subsidiary entity. The value of interest rate swaps outstanding are recognised in trade and other payables. Hedge accounting has been adopted.

Interest Rate Risk – Repricing Analysis

The table below summarises the Group's exposure to interest rate risks. It includes the Group's financial instruments at carrying amounts categorised by the earlier of their contractual repricing or expected maturity dates.

Note – the interest rate on fixed instalment receivables is fixed at the time the contract is entered into and is not repriced thereafter. Hence they are not included in the tables below:

	VARIABLE INTEREST RATE	6 MTHS OR LESS (\$m)	6-12 MTHS (\$m)	1-2 YRS (\$m)	MORE THAN 2 YRS (\$m)	NON INTEREST BEARING (\$m)	TOTAL (\$m)
GROUP 2017							
Financial Assets							
Cash And Cash Equivalents	1.75%	12.0	-	-	-	-	12.0
Trade And Other Receivables		-	-	-	-	10.1	10.1
Revolving Credit Receivables	23.95%	20.1	-	-	-	-	20.1
		32.1	-	-	-	10.1	42.2
Financial Liabilities							
Trade, Other Payables And Provisions		-	-	-	-	(26.4)	(26.4)
Fixed Instalment And Revolving Credit Receivables Borrowings	BBR plus 2%	-	-	(53.3)	-	-	(53.3)
Effect Of Interest Rate Derivatives		(20.1)	(3.2)	23.3	-	-	-
TOTAL		12.0	(3.2)	(30.0)	-	(16.3)	(37.5)
GROUP 2016							
Financial Assets							
Cash And Cash Equivalents	2.25%	8.7	-	-	-	-	8.7
Trade And Other Receivables		-	-	-	-	9.7	9.7
Revolving Credit Receivables	23.95%	20.3	-	-	-	-	20.3
		29.0	-	-	-	9.7	38.7
Financial Liabilities							
Trade, Other Payables And Provisions*		-	-	-	-	(27.8)	(27.8)
Fixed Instalment And Revolving Credit Receivables Borrowings	BBR plus 3%	(56.2)	-	-	-	-	(56.2)
Effect Of Interest Rate Derivatives		48.7	(1.4)	(4.2)	(43.1)	-	-
		(7.5)	(1.4)	(4.2)	(43.1)	(27.8)	(84.0)
TOTAL		21.5	(1.4)	(4.2)	(43.1)	(18.1)	(45.3)

*Derivatives of \$20.0m to over two years.

*Refer to Note 29 for further information in respect of the restatement of 2015.

Capital Management

The Group's capital includes share capital, reserves and retained earnings.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders funds is also recognised and the Group recognises the need to maintain a balance between the higher returns that may be possible with greater gearing and the advantages and security afforded by a sound capital position.

Other than covenants and capital ratios as referred to in Note 18 the Group is not exposed to any externally imposed capital requirements.

The allocation of capital between its specific business segment operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The process of allocating capital to specific business segment operations and activities is undertaken independently of those responsible for the operation.

The Group's responsibilities in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's management of capital during the period.

HEDGING

Interest Rate Hedges

The Group has a policy of ensuring that interest rate exposure on term borrowings excluding Finance Business (or core debt) shall be fixed forward on a rolling 12 months basis for a minimum of 45% of total exposure and up to a maximum of 100%.

Interest rate exposure on Finance Business borrowings is to be fixed forward to mirror the profile of the receivables portfolio for those receivables whose interest rate is fixed at the point the contract is originated. The minimum exposure of these receivables hedged is 75% up to a maximum of 100%.

Interest rate swaps have been entered into to achieve an appropriate mix of exposure within the Group's policy. The swaps mature over the next four years and have fixed swap rates ranging from 2.9% to 4.75% (2016 2.9% to 4.75%). At 30 April 2017 the Group had interest rate swaps with a notional contract amount of \$44.1m (2016 \$48.5m) including Finance Business of \$44.1m (2016 \$48.5m). The Group classifies interest rate swaps as cash flow hedges.

The net fair value of swaps at 30 April 2017 was \$0.8m (2016 \$1.35m) comprising assets of \$nil (2016 \$nil) and liabilities of \$0.8m (2016 \$1.35m). The interest rate used to calculate the fair value of swaps at 30 April 2017 ranges between 1.83% and 2.22%.

Forecast Transactions

The Group classifies its forward exchange contracts hedging forecast transactions as cash flow hedges. The net fair value of forward exchange contracts used as hedges of forecast transactions at 30 April 2017 was \$0.1m (2016 \$0.3m) comprising assets of \$nil (2016 \$nil) and liabilities of \$0.1m (2016 \$0.3m). The exchange rate used to calculate the fair value of forward exchange contracts at 30 April 2017 was US\$0.6880 (2016 US\$0.6978).

Accounting Classifications and Fair Values

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 year ended 30 April 2017.

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:

	2017	2016
Derivatives Held For Risk Management	2.9% - 4.75%	2.9% - 4.75%

Financial Instrument 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.

30 April 2017

	Level 1	Level 2	Level 3	Total
Other Investments, Including Derivatives (Non Current):				
Interest Rate Swaps Used For Hedging	-	-	-	-
Other Investments, Including Derivatives (Current):	-	-	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	-	-	-	-
Trade and Other Payables (Non Current):				
Forward Exchange Contracts Used For Hedging	-	0.1	-	0.1
Interest Rate Swaps Used For Hedging	-	0.8	-	0.8
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	-	0.9	-	0.9

30 April 2016

	Level 1	Level 2	Level 3	Total
Other Investments, Including Derivatives (Non Current):				
Forward Exchange Contract Used For Hedging	-	-	-	-
Other Investments, Including Derivatives (Current):	-	-	-	-
TOTAL FINANCIAL ASSETS CARRIED AT FAIR VALUE	-	-	-	-
Trade and Other Payables (Non Current):				
Forward Exchange Contract Used For Hedging	-	0.3	-	0.3
Interest Rate Swaps Used For Hedging	-	1.3	-	1.3
TOTAL FINANCIAL LIABILITIES CARRIED AT FAIR VALUE	-	1.6	-	1.6

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.

Interest Rate Sensitivity

The Group's sensitivity to interest rate risk can be expressed in two ways:

1) Fair Value Sensitivity Analysis

A change in interest rates impacts the fair value of the Group's fixed rate assets and liabilities and its interest rate swaps. Fair value changes impact on profit or loss or equity only where the instruments are carried at fair value. Accordingly, the fair value sensitivity to a 100 basis point movement in interest rates (based on the assets and liabilities held at balance date) is as follows:

	2017 Impact On Profit Or Loss +1% (\$m)	2017 Impact On Equity -1% (\$m)	2016 Impact On Profit Or Loss +1% (\$m)	2016 Impact On Equity -1% (\$m)
Derivatives	0.2	(0.2)	0.5	(0.5)

The fair value sensitivity to movements greater or less than the 100 basis point movement above approximates to a multiple of the impact stated above – i.e: a 200 point movement would double these figures.

2) Cash Flow Sensitivity Analysis

A change in interest rates would also impact on interest payments and receipts on the Group's floating rate assets and liabilities. Accordingly, the one year cash flow sensitivity to a 100 basis point movement in interest rates (based on assets and liabilities held at balance date) is as follows:

	2017 Impact On Profit Or Loss +1% (\$m)	2017 Impact On Equity -1% (\$m)	2016 Impact On Profit Or Loss +1% (\$m)	2016 Impact On Equity -1% (\$m)
Cash And Cash Equivalents	0.1	(0.1)	0.1	(0.1)
Finance Receivables Borrowings	(0.5)	0.5	(0.6)	0.6

- i) Note that trade and other receivables are all denominated in NZ\$ and are non interest bearing.
- ii) Note that as finance receivables are calculated at amortised cost using their effective interest rate the sensitivity is based on variations against the effective interest rate and not the interest rate the customer would pay in accordance with the contract itself.
- iii) Note that accounts payable are all denominated in NZ\$ and are non interest bearing.

Accounting Policy – Financial Instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedging relationship.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued.

Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and are recognised initially at fair value. Any gain or loss on remeasurement to fair value is recognised immediately in the income statement.

The fair value of forward exchange contracts is based on broker quotes. If a quote is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

23. RELATED PARTY TRANSACTIONS

Note 24 identifies all material trading companies within the Group. Also presented below the Group has the investment in an appliance buying group of which the Group is a shareholder. All of these companies are related parties to the Parent.

Information Technology Services

The company has an existing contract with Datacom Group Limited of which Mr C 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 Officer's delegated powers. Purchases for the year were \$1.37m (2016 \$0.8m). The amount owing to Datacom Group Limited at balance date was \$0.2m (2016 \$0.2m).

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 \$0.3m for the year ended 30 April 2017 (2016 \$0.3m). The amount owing to the Group at balance date was \$0.4m (2016 \$0.6m).

KEY MANAGEMENT PERSONNEL COMPENSATION

Key management personnel compensation including Directors is summarised in the table below:

	2017 (\$m)	2016 (\$m)
Employee Benefits	1.8	1.9
Employee Restructuring Costs	0.1	0.5
	1.9	2.4

24. SUBSIDIARY COMPANIES

The material trading subsidiary companies, all with balance dates of 30 April and all are wholly owned included in the consolidated accounts as at 30 April 2017 are as follows:

- Smiths City (Southern) Limited – retail
- Smiths City Properties Limited – property
- Smiths City Finance Limited – finance
- SCG Finance Limited – finance
- Adventure Brands Limited – bicycle distributors

Except for Adventure Brands Limited all Directors of Smiths City Group Limited are also Directors of the Trading subsidiaries. The Directors of Adventure Brands Limited include Mr G Rohloff and Mr R Campbell.

25. OPERATING LEASES

Non cancellable operating lease rentals are payable as follows:

	2017 (\$m)	2016 (\$m)
Less Than 1 Year	13.9	13.8
Between 1-5 Years	34.3	36.4
More Than 5 Years	10.7	16.7
	58.9	66.9

Accounting Policy – Operating Leases

The Group leases all of its stores under operating leases. The leases typically run for between two to nine years with options to renew the leases after that date. Note, however, that during the year ended 30 April 2016 the sale and leaseback of the Colombo Street property on 30 October 2015 and the acquisition of Furniture City at 1 April 2016 has increased the operating lease commitment. Lease payments are increased every three years to reflect either market rentals or in some cases CPI increases. The Group leases the majority of its motor vehicle fleet under operating leases.

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the term of the lease.

26. CAPITAL COMMITMENTS

The value of capital commitments at 30 April 2017 was \$nil (2016 \$nil).

27. CONTINGENT LIABILITIES

The value of contingent liabilities at 30 April 2017 was \$nil (2016 \$0.8m).

28. EVENTS SUBSEQUENT TO BALANCE DATE

On 20 June 2017 the Directors resolved to pay a dividend of 2.5cents per share (fully imputed) on Friday 11 August 2017 (2016 2.5cents).

On 2 June 2017 the Group announced a planned capital return of \$5.7m to shareholders.

The capital return is to be conducted in accordance with Part 15 of the Companies Act 1993 and will see Smiths City compulsorily acquire and cancel three in every twenty shares at 72 cents per share. The plan is subject to the approval of the High Court, the company's bank ASB and the IRD and a special resolution of shareholders. Smiths City is likely to seek shareholder support at the company's annual meeting in August.

29. 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 \$0.6m. The restatement of the deferred tax asset on the provision for holiday pay is \$0.2m. The nett effect of this is recorded as a reduction in opening equity at 1 May 2015 of \$0.4m.

GENERAL DISCLOSURES

Report And Financial Statements

Your Directors are pleased to submit to shareholders their Report and Financial Statements for the year ended 30 April 2017.

Principal Activities

Smiths City Group Limited is a New Zealand based and operated company. It has two principal activities being:

- Retail Trading – the retailing of consumer electronic products, kitchen appliances, home heating solutions, home furnishings and sporting goods through the Smiths City brand.
- Finance – the provision of finance by Smiths City Finance Limited to support the retailing operation.

Profit

The Group net profit after taxation was \$2.4m – compared with last year's \$5.6m. Earnings per share was 4.5 cents compared with 10.6cents last year.

Financial Statements

The financial statements for the year ended 30 April 2017 are shown on pages 34 to 38 in this report.

Changes in Accounting Policies

In preparing these financial statements the accounting policies outlined in the notes to the financial statements have been applied. There were no significant changes in accounting policies during the year.

State of Affairs

The Directors are of the opinion that the state of affairs of the Group is satisfactory. Details of the period under review are included in the Director's Report and the audited financial statements.

Shareholders' Equity

Shareholders' equity as at 30 April 2017 was \$53.4m, up on prior year \$52.3m

Dividend

The Directors have approved a fully imputed final dividend of 2.5cents (last year 2.5cents unimputed) to be paid on 11 August 2017. This brings the dividend to 3.5cents for the full year fully imputed (last year 3.5cents unimputed).

Significant Events During The Year

The details of these are explained fully in the Director's Review.

Events Subsequent To Balance Date

Significant events subsequent to balance date are detailed under Note 28.

Remuneration to Auditors

The fee for the audit of the Group and subsidiaries paid to KPMG was \$84,000 (2016 \$84,500). Fees paid to the auditors for other services provided amounted to \$24,100 (2016 \$2,800).

Share Dealings By Directors

The company received two notices of share trading from the Directors during the current year. At balance date Directors and their associates held interests in the following shares.

	Balance 30.4.16	Purchases	Sales	Balance 30.4.17
C D Boyce (19.7.16)	1,648,372	20,000	-	1,668,372
J A Dobson	251,579	-	-	251,579
S M Henderson (21.7.16)	-	33,000	-	33,000

DISCLOSURES OF INTEREST

Directors Of Related Companies Including Subsidiaries

Craig David Boyce, John Allen Dobson, Gary Raymond Rohloff; Sheena Moana Henderson and Tony Donald Allison are Directors of the following companies:

- Smiths City Group Limited
- Smiths City Finance Limited
- SCG Finance Limited
- Smiths City (Southern) Limited
- Smiths City Properties Limited

Craig David Boyce and John Allen Dobson are Directors of the following companies:

- Debt Recovery and Legal Services Limited – formerly Smiths City (Auckland) Limited
- Smiths City (Nelson) Limited
- Smiths DIY (Southern) Limited
- Smiths City (Wellington) Limited
- Smiths City (Christchurch) Limited
- Quintana Investments Limited
- Powerstore Limited
- Alectra Limited
- Furniture Concepts (2004) Limited
- L V Martin & Son Limited
- Smiths City Staff Share Plan Trustee Limited

Gary Raymond Rohloff and Roy James Campbell (CEO) are Directors of Adventure Brands Limited.

Directors have disclosed the following interests as directors, trustees, members or employees of companies or other entities which may have material dealings with the company from time to time as at 30 April 2017.

C D BOYCE (Chairman)

- Datacom Group Limited
- Progressive Leathers Limited
- Ovation (New Zealand) Limited
- Extra Strength No 164 Limited
- Transdiesel Limited
- Horizon Farms Limited
- Snowy Peak Group Limited

J A DOBSON (Deputy Chairman)

- J A Dobson Limited
- Craigpine Timber Limited
- Simmonds Lumber NZ Limited
- Simmonds Lumber Pty Limited
- Amalgamated Holdings Limited

G R ROHLOFF

- Bikes International
- Laybuy Holdings Limited
- Modus Operandi Limited

S M HENDERSON

- Young Enterprise Trust
- New Zealand Pork Industry
- Cluster Limited
- Natural Food Group
- Watson & Son GP Limited
- Manuka Med Holdings GP Limited

T D ALLISON

- Dunedin International Airport Limited
- City Forest Limited
- AA Cleaners (Otago) Limited
- Night 'n Day Foodstores Limited
- Lane Group Limited
- Two Four Holdings Limited
- RFC Limited

Further Information

For information on Use of Company Information and Insurances refer to the Corporate Governance Report on page 22.

ADDITIONAL COMPANY INFORMATION AND SECURITY HOLDER DISCLOSURES

Executive Employees Remuneration

During the year the following numbers of employees received remuneration of at least \$100,000:

Remuneration	Number of employees
100,000-110,000	9
110,000-120,000	1
120,000-130,000	3
130,000-140,000	1
150,000-160,000	2
160,000-170,000	1
180,000-190,000	2
190,000-200,000	1
260,000-270,000	1
670,000-680,000	1
	22

Substantial Security Holders

The following are Substantial Security Holders as at 13 June 2017 as defined by the Financial Markets Conduct Act 2013 (refer also to details of Largest Registered Holders of Equity Securities on page 70 for further information):

Substantial Security Holder	Number Of Voting Securities With Beneficial Interest	Number Of Voting Securities With No Beneficial Interest	Date of Notice
Donald M Campbell/Custodial Services Limited	10,231,585	-	22 December 2016
Utilico Investments Limited/ NZ Central Securities Depository Limited	7,140,437	-	2 July 2014
Mercantile Investment Company/Sandon Capital Pty Limited/One Managed Investment Funds	5,251,637	-	22 December 2016
Mercantile Investment Company/Sandon Capital Pty Limited/One Managed Investment Funds	5,193,552	-	22 December 2016

Distribution Of Registered Holders Of Equity Securities As At 13 June 2017

Ranges	Number of holders	Number of securities	%
1-1,000	224	156,376	0.30
1,001-5,000	489	1,292,701	2.45
5,001-10,000	183	1,472,503	2.79
10,001-50,000	223	5,203,004	9.88
50,001-100,000	36	2,673,020	5.07
100,001 and above	46	41,890,549	79.51
	1,201	52,688,153	100.00

Distribution Of Registered Holders Of Equity Securities As At 13 June 2017

Country	Investors	Number of securities	%
New Zealand	1,164	41,620,462	78.99
Australia	23	10,903,806	20.69
United Kingdom	7	52,330	0.10
United States	3	103,755	0.20
France	1	800	0.00
Hong Kong	1	2,000	0.01
Oman	1	4,000	0.01
Switzerland	1	1,000	0.00
	1,201	52,688,153	100.00

20 Largest Registered Holders Of Equity Securities As At 13 June 2017

Holder name	Balance	%
Custodial Services Limited	10,374,143	19.69
New Zealand Central Securities Depository Limited	7,643,269	14.51
One Managed Investment Funds	5,251,637	9.97
One Managed Investment Funds	5,193,552	9.86
Ace Finance Limited	2,601,000	4.94
Extra Strength Number 164 Limited	1,668,372	3.17
Forsythe Barr Custodians Limited	1,491,488	2.83
Garry John Cooper	673,161	1.28
Russell Dillon Horlor	550,000	1.04
Errol Douglas George Scott	434,230	0.82
Gordon Henry Boyle	401,087	0.76
Aiken & Associates Limited	344,126	0.65
John Kenneth Woodhall & Jocelyn Dawn Woodhall	300,000	0.57
Lindsay Morton Walter	275,000	0.52
J A Dobson & P S Dobson & J R Thomson & N S Anderson	251,579	0.48
Prime Projects Limited	250,000	0.47
Alan Dallas Bean	227,690	0.43
Murray Lesley Watson	215,241	0.41
Te Iwi Carving Limited	200,000	0.38
Fapp Securities Limited	199,875	0.38
TOTAL FOR 20 LARGEST	38,545,450	73.16

OUR PEOPLE 2017

As At June 2017

ADIE Shaun (DOS SANTOS) SILVA Cleni AHEARN Harry AITCHESON Ross ALLAN Craig ALLEN Brennan ALLEN Diane ALMOND Annette ALUMMOOTTIL Judie AMYES Keith ANDERSON Diane ANSAR Abdul ARCHER Alice ARNOLD Jacey ASHTON Tracey ATTEWELL Rebecca AUSTIN John AUSTIN Sandra AYERS Sarah-Lee BADMAN Nigel BAHRAINWALA Husein BAILEY Carmen BAILEY Duane BAILEY Lisa BAKER Tom BALDWIN Mark BALFOUR Craig BALLANTYNE Glenn BANKS Sam BARLOW Terry BARNAO Barney BARNES Michael BATES Joshua BECKLEY Grant BEECHER Nigel BESSLER Nathan BEZUIDENHOUT Robert BHOGAL Ron BIDDINGTON Blair BIDDINGTON Justin BILLING Andrew BISHOP Lyndsey BIZO Joanna BLACK Kenneth BLACKWELL Simon BLAKE Catherine BODERICK Francis BREACH Bonnie BRENNAN Caleb BREWER Lisa BRIGGS Jamie BRINER Amy BROOK Shane BUCKNALL Phil BUDD Jonathon BUGDEN Matthew BURGESS Chris BURNLEY Kate BURROWS Shane BURTENSCHAW Alec BURTON Ann BUSSON Sue CADELIS Joseph CALVER Aaron CAMPBELL Morgan CAMPBELL Roy CARREL Teresa CARSON Aaron CARSTON Paul CASKIE Sandra CAULTON Tom CHADWICK Rob CHAIPANIT Ning CHANG Yu Chien CHERRY Taine CHING Marcia CHONG Sharon CHRISTIAN Marcus	CHRISTIANSEN Stephen CHU Gary CLARKE Logan CLAXTON Jeremy CLEVERLEY Lynne COFFEY Sandra COGGER-MACE Jade COLLINS Rachael COOK Peter COOKE Corey COOKE Walter COSTER Scott COUTTS Toni CRAIG Sheila CRANSTOUN Orlana CRAWFORD Rio CRICHTON Christine CRICHTON Jack CROSS Daisy CULHAM Ross CUMBERLAND Jill CUNNINGHAM Ian CURSONS Karen CURTIS Karen CURTIS Kerri DABB Andre DALY Brian DARLING Kellie DAVESSCOVICH-BUTCHER Lynne DAVIDSON Chris DAVIES Khan DAVIES Lynn DAVIS Noah DAWAI Allan DEANS Steven DELANAY Joanne DELPORT Travis DER STEPANIAN Joel DHOLA Pankaj DICKIE Peter DICKSON Colin DID-DELL Philip DID-DELL Tim DODDS Donna DONALDSON Diana DONEY Hannah DONGHI Toni DOOCEY Adam DORRANCE Aleks DRAKE Debra DREDGE Rachael DUBB Ravi DUDLEY Dawn DUMELOW Laura DUREY Raiden EARL Fallon EASTERBROOK Alistair EDGAR Warwick EDIE Michael ELVIN Shelly ESAU Numia EWAN Emily FEARN Richard FERGUSON Christine FITZHARDINGE Oliver FLORES Rowena FORBES Jayden FORBES-HATI Tylah FORREST Chelsea FORSTER Marie FOSTER Jean FRENCH Lisa FULLER Jacob FUNAKI Johnny GAINES Sharon GAJJAR Jignesh	GALT Jared GARDNER Lynley GAUR Parteek GIBLIN James GILBERT Catherine GILL Ann-Marie GILLIES Jodie GOUGH Sali GRAHAM Laurette GRANT Daniel GRANT Judith GRANT Suzy GRATTON Stefan GREDIG Barry GRIFFIS Tahila GRUNDY Joshua GUPTA Amod GUTIERREZ Maria HAGUE Matthew HAINES Graeme HALL Gary HALL Stephanie HALLINAN Scott HAMPL Jaromir HANNAN John HARDING Fonda HARGRAVES Fiona HARRINGTON Emma HARRIS Marc HARVEY Jason HASKELL Craig HAWES Ben HAWES Joel HAWKE Michael HAZLETON Maureen HEANEY Michelle HELLIER Joanne HENDERSON Glenys HENDRICKS Melissa HERNANDEZ Norman HESSON Philip HEWLETT Brent HEY John HICKSON Lorian HIPGRAVE Tristan HOBBS Frances HOBBS Joshua HOGARTH Christine HOLLAND Kathryn HOLLIS Chantelle HOLM Paul HOLMES Sharon HOPKINS Mark HOY David HUFFAM Aaron HUMPHREY Stuart HUNT Toni HUTCHISON Keli IOSEFA Fale ISAAKO Leaso IZETT Stephen JARVIS Chris JELAS Rob JENKINS Andrea JENKINS Bryce JOBSON Peter JOHNSON Allan JOHNSON Kristine JOHNSON Laureen JOHNSON Marc JOHNSTON Derek JOHNSTON Lois JONES Charlotte JONES Cody JONES Daniel JONES Lindon JOYCE Graeme	JUNGE Mat JURY Lisa KAHLOON Shahzad KAINUKU John KAINUKU Samuel KAPOOR Raman KARYSTINOS Costa KATAE Peter KATIPA Kirsty KAUR Amandeep KAUR Ruby KEATING Raegan KEREAMA Liam KERR Gavin KERR Rowan KHUBALL Emily KIDWELL Kalata (La) KILLEEN William KING Russell KINGI Sarah KINGSLEY Stephen KIRK Melanie KIRNER Jackie KNEBEL Nicky KNIGHT Fiona KNOWLER Michael KRAMER Jody KRUPA Klaudia KUMAR Sandeep KUMAR Vivek LAGIONO John Farr LAL Madan LAL Shaneel LAMB Bryan LAMB Nic LAMB Samantha LANCASTER Vickie LANDSBERG Candice LANGE Colin LATTA Sally LAWSON Tony LAY Jasper LAY Jeffrey LE COMTE Clint LEARMOND Bob LECKIE Martin LEDGER Ryan LEE Annabelle LEE Brian LEE Katherine LEE Sim LEWIS Jack LEWIS Matthew LEWIS Philip LEYNES Jose LIND Joyce LINDSAY Mark LINES Bonnie-May LINTON Kevin LIPMAN Scott LIPPITT Lisa LIST Gavin LITTLE Samantha LLOYD Grant LORMAN'S Vince LOUGH Braiden LOUGH David LOUTTIT Glenda LOW Nathan LOWE Anthony LUAFUTU Lino LUFF Richard LUND Jarrell MacASKILL Anna MacDONALD Robyn MacKAY Rachael MacKENZIE Michael MAHAKI Rangihuata (Hula)	MALHERBE Adriel MANDALIA Satish MANDER John MANN Dene MARSTERS James MARTIN Fiona MARUNUI Rangi MASI Jessica MASTER-SIMELHAY Connor MATEORA Tuaine MAXTED James MATHER Emma MATTHEWS Shane MAXTED James McCANN Quenton McCLURE Susanne McDONALD Siuann McDOWELL Katie McEWM Russell McFADDEN Bruce McFADDEN Dayle McFARLANE Sue McFELIN Lyn McINTOSH Jodie McINTOSH Quinton McIVOR Bronagh McIVOR Tania McKINNON Neil McLAUGHLAN Mark McLEAN Anton McLELLAN Taylor McMILLAN Lance McSHERRY Beth MEAD Bryce MEIKLE Judy MELIS Karen MICHELL Susanna MIHAERA Barbara MILLNS Dianne MILNE Nicholas MINNIE Eugene MITCHELL Elizabeth MITCHELL Loui MITCHELL Trish MONTGOMERY Danielle MOORE David MOORE Jessica MOORE Shane 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Kathleen ROSS Norman ROSSITER Jason RUMBAL Maggie RUSSELL Michael RUTHERFORD Heather SAINI Nikhil SANCHES Isaac SATHIYANATHAN Praveena SAVENIUE Michael SAVERS Jamie SCHWASS Alan SEDDON Lynne SEDDON Rhys SEERDEN Mark SHAHZAD Amina SHAIKH Saaz SHARLAND Garry SHARMA Jyoti SHARMA Tarun SHAW Tayla SHEARER Megan SHEARMAN Rian SHEARY Robert SHEPHERD Rachel SHERER Katherine SHIELDS Geordie SIAOSI Jesse SIATAGA Stephan SIDHU Harjot SINGH Bikram SINGH Davender SINGH Harmanpreet SINGH Harvinder SINGH Karandeep	SINGH Maninder SINGH Pawandeep SINGH Rahul SINGH Tejpal SINNES Waraporn SIONESINI Young SMITH Dean SMITH Doug SMITH Joshua SMITH Kelly SMITH Margaret SMITH Michael SMITH Nathan SMITH Peter SMITH Shanna SMITH Will SMITHERS Michael SOLOFUTI Alatua SOLOMON Tau SOUTZIDELLIS Andre STEWART Mathew STOTT Chris STRANG Andrea STUART Janet SULLIVAN Sharon SUPAN Jester SUTCLIFFE Craig SWAN Ronald SYMONS Reginald TA'ALA Cheyenne TAHAPEEHI Tete TAIPARI Hagley TAKITIMI Michaela TAN Shan TANG Alan TANG Alan TANGIITI Teri TAWHI-AMOPIU Kyrah TAYLOR Jason TAYLOR Jason TAYLOR Jason TE MIHA Tanginoa TE RUPE Nan TEBAY Russell TE-EVALE Sui THOMSON Murray THORBURN Adam THORESEN Tracey THORNE Jessica TIATIA Leota TILLEY Warwick TINDALL Gregg TODD James TOKO David TONKIN Paul TONKIN Victor TOPP Julie TORREY Jerome TOUNG Damien TRAINOR Paul TREMMAIN Gemma TROCHON Stefan TSAO Carmen TUCKER Jennifer TURCHIE Craig TWEEDDALE Beverley VAIKVEE Davin VALLANCE Ian VAN DER AA Kim VAN DER LEM Martin VAN RENSBURG Cathy VAN ROOY Logan VEERAPUTHARAN Vick WAHAPANGO Hemi WAITE Alan WALDRON Mark WALKER Jane WALKER Ross WALTERS John WARD Chris	WARD Liam WARMAN Trent WATSON Eric WATTON Nathaniel WEBER Connor WELLS Carl WHAREHINGA Levi WHAREPAPA Logan WHILES-HUMPHREYS Steve WHITE Adam WHITE Angela WHITE Jan WHITE Merlita WICKS Susan WILKES Rachael WILLCOX Paula WILLIAMS Chris WILLIAMS Liam WILLIAMSON Ngairie WILSON Anna-Marie WILSON Daniel WILSON Owen WILSON Tony WINEERA Melanie WINTER Paula WITANA Liam WONG Paul WOOD Sharon WOOD Stephen WORSLEY Anthony WRIGHT Valerie WROBLEWSKI Krzysztof WYLIE Hayden YOUNG Peter
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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

REGISTERED OFFICE

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BANKERS

ASB Bank Limited

518 Colombo Street, P O Box 13650, Christchurch 8140

AUDITORS

KPMG

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