

Michael Hill International Limited
Condensed statement of comprehensive income
For the six months ended 31 December 2014

	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Revenue from continuing operations	283,189	270,750
Other income	66	305
Cost of goods sold	(101,780)	(95,893)
Employee benefits expense	(70,194)	(68,960)
Occupancy costs	(24,872)	(22,996)
Selling expenses	(12,640)	(14,111)
Marketing expenses	(17,663)	(15,720)
Depreciation and amortisation expense	(7,574)	(6,206)
Loss on disposal of property, plant and equipment	(123)	(597)
Other expenses	(13,406)	(16,631)
Finance costs	(2,559)	(1,456)
Profit before income tax	32,444	28,485
Income tax expense	(8,747)	(12,240)
Profit for the half-year	<u>23,697</u>	<u>16,245</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges	(609)	-
Currency translation differences arising during the half-year	5,748	7,319
Other comprehensive income for the half-year, net of tax	<u>5,139</u>	<u>7,319</u>
Total comprehensive income for the half-year	<u>28,836</u>	<u>23,564</u>
Total comprehensive income for the half-year is attributable to:		
Owners of Michael Hill International Limited	<u>28,836</u>	<u>23,564</u>
	Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company during the half-year, attributable to continuing operations:		
Basic earnings per share	6.19	4.24
Diluted earnings per share	6.15	4.17

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

Michael Hill International Limited
Condensed statement of financial position
As at 31 December 2014

	Notes	31 Dec 2014 \$'000	31 Dec 2013 \$'000	30 June 2014 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		11,737	9,852	8,109
Trade and other receivables		30,527	25,627	25,143
Inventories		207,774	210,477	179,280
Current tax receivables		-	-	61
Other current assets		1,437	-	-
Total current assets		<u>251,475</u>	<u>245,956</u>	<u>212,593</u>
Non-current assets				
Trade and other receivables		584	1,976	480
Property, plant and equipment	3	64,727	54,578	55,400
Intangible assets	4	6,643	5,991	6,413
Deferred tax assets		65,042	60,216	62,324
Other non-current assets		2,521	2,469	2,608
Total non-current assets		<u>139,517</u>	<u>125,230</u>	<u>127,225</u>
Total assets		<u>390,992</u>	<u>371,186</u>	<u>339,818</u>
LIABILITIES				
Current liabilities				
Trade and other payables		68,489	61,273	42,034
Borrowings		-	56,000	-
Current tax liabilities		6,025	9,549	-
Provisions		4,737	4,506	4,235
Deferred revenue		25,510	17,297	24,736
Total current liabilities		<u>104,761</u>	<u>148,625</u>	<u>71,005</u>
Non-current liabilities				
Borrowings		45,572	-	56,000
Provisions		5,262	1,951	1,740
Deferred revenue		38,846	35,237	29,788
Total non-current liabilities		<u>89,680</u>	<u>37,188</u>	<u>87,528</u>
Total liabilities		<u>194,441</u>	<u>185,813</u>	<u>158,533</u>
Net assets		<u>196,551</u>	<u>185,373</u>	<u>181,285</u>
EQUITY				
Contributed equity	5	3,760	3,651	3,651
Reserves		11,021	9,806	5,796
Retained profits		181,770	171,916	171,838
Total equity		<u>196,551</u>	<u>185,373</u>	<u>181,285</u>

The above condensed statement of financial position should be read in conjunction with the accompanying notes.

Michael Hill International Limited
Condensed statement of changes in equity
For the six months ended 31 December 2014

Attributable to owners of Michael Hill International Limited						
Notes	Contributed equity \$'000	Options reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2014	3,651	1,918	4,155	(277)	171,838	181,285
Profit for the period	-	-	-	-	23,697	23,697
Currency translation differences	-	-	5,748	-	-	5,748
Currency forward contracts	-	-	-	(11)	-	(11)
Interest rate swaps	-	-	-	(598)	-	(598)
	<u>3,651</u>	<u>1,918</u>	<u>9,903</u>	<u>(886)</u>	<u>195,535</u>	<u>210,121</u>
Transactions with owners in their capacity as owners:						
Dividends paid	6	-	-	-	(13,765)	(13,765)
Employee shares issued	5	109	-	-	-	109
Option expense through share based payments reserve	-	86	-	-	-	86
Balance at 31 December 2014	<u>3,760</u>	<u>2,004</u>	<u>9,903</u>	<u>(886)</u>	<u>181,770</u>	<u>196,551</u>

Attributable to owners of Michael Hill International Limited						
Notes	Contributed equity \$'000	Options reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2013	3,424	1,212	(84)	-	169,133	173,685
Profit for the period	-	-	-	-	16,245	16,245
Currency translation differences	-	-	7,319	-	-	7,319
	<u>3,424</u>	<u>1,212</u>	<u>7,235</u>	<u>-</u>	<u>185,378</u>	<u>197,249</u>
Transactions with owners in their capacity as owners:						
Dividends paid	6	-	-	-	(13,462)	(13,462)
Issue of share capital - exercise of options	-	102	-	-	-	102
Employee shares issued	-	113	-	-	-	113
Option expense through share based payments reserve	5	-	1,411	-	-	1,411
Cancellation of issued options	5	-	(40)	-	-	(40)
Transfer option reserve to contributed equity on exercise of options	-	12	(12)	-	-	-
Balance at 31 December 2013	<u>3,651</u>	<u>2,571</u>	<u>7,235</u>	<u>-</u>	<u>171,916</u>	<u>185,373</u>

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

Michael Hill International Limited
Condensed statement of cash flows
For the six months ended 31 December 2014

	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Cash flows from operating activities		
Receipts from customers (incl. of GST and sales taxes)	315,529	302,675
Payments to suppliers and employees (incl. of GST and sales taxes)	<u>(253,659)</u>	<u>(286,021)</u>
	<u>61,870</u>	<u>16,654</u>
Interest received	23	193
Other revenue	67	305
Interest paid	(2,395)	(1,232)
Income tax paid	(4,178)	(4,928)
Net goods and services tax paid	(15,459)	(13,250)
Net cash inflow / (outflow) from operating activities	9 <u>39,928</u>	<u>(2,258)</u>
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	144	15
Payments for property, plant and equipment	(11,265)	(11,333)
Payments for intangible assets	(1,156)	(2,129)
Net cash inflow / (outflow) from investing activities	<u>(12,277)</u>	<u>(13,447)</u>
Cash flows from financing activities		
Proceeds from borrowings	68,507	66,000
Repayment of borrowings	(79,000)	(38,000)
Proceeds from sale of treasury stock	99	102
Proceeds from share options exercised	-	102
Dividends paid to Company's shareholders	6	(13,462)
Net cash inflow / (outflow) from financing activities	<u>(24,159)</u>	<u>14,742</u>
Net increase / (decrease) in cash and cash equivalents	3,492	(963)
Cash and cash equivalents at the beginning of the half-year	8,109	10,461
Effects of exchange rate changes on cash and cash equivalents	136	354
Cash and cash equivalents at end of the half-year	<u>11,737</u>	<u>9,852</u>

The above condensed cash flow statement should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The interim financial statements for the half-year ended 31 December 2014 have been prepared in accordance with NZ IAS 34 interim financial reporting and IAS 34 interim financial reporting.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2014. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Statutory base

Michael Hill International Limited is a public company registered under the Companies Act 1993 and is domiciled in New Zealand. The Company has its primary listing on the New Zealand Stock Exchange.

The interim financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Financial Markets Conducts Act 2013 and the Companies Act 1993. The interim financial statements of the Group are for the economic entity comprising Michael Hill International Limited and its subsidiaries.

These consolidated financial statements have been approved for issue by the Board of Directors on 12 February 2015.

The reporting currency used in the preparation of these consolidated interim financial statements is Australian dollars, rounded to the nearest thousand.

2 Segment information

Identification and description of segments

The operating segments are identified by the Board and Executive Team based on the country in which the item is sold.

The Executive Director and Executive Team consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed. Discrete financial information about each of these operating businesses is reported to the Board and Executive Team monthly, via the preparation of the Group financial report.

The Group operates in four geographic segments: New Zealand, Australia, Canada and the United States of America.

Types of products and services

Michael Hill International Limited and its controlled entities operate predominately in the sale of jewellery and related services. As indicated above, the Group is organised and managed globally into geographic areas.

Major customers

Michael Hill International Limited and its controlled entities sells goods and provides services to a number of customers from which revenue is derived. There is no single customer from which the Group derives more than 10% of the total consolidated revenue.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

It is the Group's policy that if items of revenue and expense are not allocated to operating segments, then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments, which management believes will be inconsistent.

Unallocated expenses include all expenses that do not relate directly to the relevant Michael Hill retail segment and include: the Emma & Roe brand operations, trading activity through our online presence, manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

Michael Hill International Limited
Notes to the financial statements
For the half year ended 31 December 2014

(continued)

2 Segment Information (continued)

	MHJ AUSTRALIA			MHJ NEW ZEALAND			MHJ CANADA			MHJ USA			GROUP		
	2014	2013	+/-%	2014	2013	+/-%	2014	2013	+/-%	2014	2013	+/-%	2014	2013	+/-%
	\$'000	\$'000		\$'000	\$'000		\$'000	\$'000		\$'000	\$'000		\$'000	\$'000	
Operating revenue															
Sales to customers	168,540	171,737	(1.9%)	58,045	54,229	7.0%	45,835	39,392	16.4%	6,768	5,486	23.4%	279,188	270,844	3.1%
Unallocated revenue													4,001	(94)	4,356.4%
Total operating revenue													283,189	270,750	4.6%
Segment results															
Operating surplus / (loss)	31,504	29,002	8.6%	12,814	11,081	15.6%	5,251	2,978	76.3%	(644)	(596)	(8.1%)	48,925	42,465	15.2%
Unallocated revenue less unallocated expenses													(16,481)	(13,980)	(17.9%)
Profit before income tax													32,444	28,485	13.9%
Income tax expense													(8,747)	(12,240)	28.5%
Profit for the year													23,697	16,245	45.9%
Segment assets															
Unallocated	121,993	121,347	0.5%	47,794	45,496	5.1%	67,432	70,949	(5.0%)	18,200	15,501	17.4%	255,419	253,293	0.8%
Total													135,573	117,893	15.0%
													390,992	371,186	5.3%
Segment liabilities															
Unallocated	72,434	63,875	13.4%	23,634	20,136	17.4%	17,777	13,640	30.3%	3,209	2,711	18.4%	117,054	100,362	16.6%
Total													77,387	85,451	(9.4%)
													194,441	185,813	4.6%
Segment acquisitions of property, plant & equipment and intangibles															
Unallocated	1,749	3,953	(55.8%)	2,117	2,345	(9.7%)	3,708	4,846	(23.5%)	541	291	85.9%	8,115	11,435	(29.0%)
Total													4,306	2,027	112.4%
													12,421	13,462	(7.7%)
Segment depreciation and amortisation expense															
Unallocated	3,202	3,122	2.6%	1,168	952	22.7%	1,447	1,116	29.7%	322	247	30.4%	6,139	5,437	12.9%
Total													1,435	769	86.6%
													7,574	6,206	22.0%

3 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2014, the Group acquired assets with a total cost of \$11,265,000 (31 December 2013 - \$11,333,000). Assets with a net book value of \$267,000 were disposed of during the six months ended 31 December 2014 (31 December 2013 - \$612,000), resulting in a net loss on disposal of \$123,000 (31 December 2013 - \$597,000 loss).

4 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2014, the Group acquired assets with a total cost of \$1,156,000 (31 December 2013 - \$2,129,000). No assets were disposed of during the six months ended 31 December 2014 (31 December 2013 - nil).

5 Contributed equity

	31 Dec 2014 Shares	30 Jun 2014 Shares	31 Dec 2014 \$'000	30 Jun 2014 \$'000
Share capital				
Ordinary shares				
Fully paid	383,153,190	383,153,190	3,767	3,702
Treasury stock held for employee share scheme	<u>(14,677)</u>	<u>(111,584)</u>	<u>(7)</u>	<u>(51)</u>
	<u>383,138,513</u>	<u>383,041,606</u>	<u>3,760</u>	<u>3,651</u>
Opening balance of ordinary shares issued	383,153,190	383,053,190	3,702	3,515
Issues of ordinary shares during the year				
Exercise of options	-	100,000	-	102
Transfer from option reserve	-	-	-	12
Employee share scheme issue	96,907	92,062	109	113
Transfer from treasury stock	<u>(96,907)</u>	<u>(92,062)</u>	<u>(44)</u>	<u>(40)</u>
Closing balance of ordinary shares issued	<u>383,153,190</u>	<u>383,153,190</u>	<u>3,767</u>	<u>3,702</u>

(a) Employee Share Scheme

During the half-year, 96,907 shares were issued to the Michael Hill International Limited Employee Share Scheme at an average price of NZ\$1.13. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

Michael Hill International Limited acquired nil shares through on-market purchases on the New Zealand Stock Exchange during the half-year.

(b) Options

The Board has resolved to issue 400,000 share options during the 2015 financial year, to subscribe for ordinary shares in the Company to senior executives. The options were issued with an exercise price of \$1.63, which was 30% above the volume weighted average market price of the Company's ordinary shares in the 20 business days following the announcement to the New Zealand Stock Exchange on 15 August 2014 of the Company's results for the year to 30 June 2014.

6 Dividends

	31 Dec 2014 \$'000	31 Dec 2013 \$'000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2014 of NZ 4.0c (2013 - NZ 4.0c) per fully paid share paid on 3 October 2014 (2013 - 4 October 2013)	<u>13,765</u>	<u>13,462</u>
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of NZ 2.5c per fully paid ordinary share (2013 - NZ 2.5c). The aggregate amount of the proposed dividend expected to be paid on 2 April 2015 out of retained profits at 31 December 2014, but not recognised as a liability at the end of the half-year, is	<u>9,177</u>	<u>8,816</u>

The dividends paid during the current financial period and corresponding previous financial period are not imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax.

7 Contingencies

(a) Contingent liabilities

Tax matters

The Group has one unresolved tax matter relating to the sale and financing of the intellectual property between New Zealand and Australian Group members, as reported in the 2014 Annual Report.

Discussions continue with the Inland Revenue Department within their dispute process framework. With the passage of time, the Board considers it is increasingly likely that the matter will require formal resolution through the courts, but it remains unclear when this might occur. The Board remains of the opinion that this tax matter does not require a provision in the Group's financial statements, nevertheless a tax pooling arrangement has been entered which would mitigate some of the risks of an adverse outcome.

The Group has no other material contingent liabilities as at balance date.

8 Events occurring after the reporting period

There were no events occurring after balance date that would cause a material misstatement to the financial information presented in this interim financial report.

9 Reconciliation of profit after income tax to net cash inflow from operating activities

	31 Dec 2014 \$'000	31 Dec 2013 \$'000
Profit for the half-year	23,697	16,245
Depreciation and amortisation	7,574	6,206
Non-cash employee benefits expense - share based payments	97	1,393
Other non-cash expenses	(18)	59
Net loss on sale of non-current assets	123	597
Net exchange differences	(1,927)	144
(Increase) / decrease in trade and other receivables	(5,015)	(8,937)
(Increase) / decrease in inventories	(26,551)	(47,171)
(Increase) / decrease in deferred tax asset	(2,759)	4,395
(Increase) / decrease in other current assets	(1,437)	-
(Increase) / decrease in other non-current assets	101	(413)
(Decrease) / increase in trade and other payables	26,331	18,618
(Decrease) / increase in current tax liabilities	6,118	(3,418)
(Decrease) / increase in provisions	4,026	814
(Decrease) / increase in deferred revenue	9,568	9,210
Net cash inflow / (outflow) from operating activities	<u>39,928</u>	<u>(2,258)</u>

Review Report to the Shareholders of Michael Hill International Limited (“the company”) and its subsidiaries together (“the group”)

We have reviewed the interim financial statements on pages 1 to 11, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders, as a body, in accordance with our engagement letter. Our review has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in a review 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 company and the company's shareholders as a body, for our review work, for this report, or for our findings.

Directors' Responsibilities

The directors are responsible for the preparation and fair presentation of interim financial statements which comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Reviewer's Responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with generally accepted accounting practice in New Zealand (“NZ GAAP”). As the auditor of the Michael Hill International Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Basis of Statement

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

Other than in our capacity as assurance practitioner we have no relationship with, or interests in, the group.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 1 to 11, do not present fairly, in all material respects, the financial position of the group as at 31 December 2014 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 12 February 2015 and our findings are expressed as at that date.



Ernst & Young
Brisbane