

**Michael Hill International Limited**  
**Condensed statement of comprehensive income**  
**For the six months ended 31 December 2012**

	<b>31 Dec 2012 \$'000</b>	31 Dec 2011 \$'000
<b>Revenue from continuing operations</b>	<b>312,866</b>	288,846
Other income	<b>182</b>	197
Cost of goods sold	<b>(112,965)</b>	(109,483)
Employee benefits expense	<b>(76,389)</b>	(67,060)
Occupancy costs	<b>(25,820)</b>	(23,257)
Selling expenses	<b>(18,532)</b>	(16,862)
Marketing expenses	<b>(17,501)</b>	(17,560)
Depreciation and amortisation expense	<b>(6,411)</b>	(6,093)
Loss on disposal of property, plant and equipment	<b>(34)</b>	(423)
Other expenses	<b>(19,262)</b>	(13,474)
Finance costs	<b>(1,924)</b>	(2,494)
<b>Profit before income tax</b>	<b>34,210</b>	32,337
Income tax expense	<b>(6,371)</b>	(6,040)
<b>Profit for the half-year</b>	<b><u>27,839</u></b>	<u>26,297</u>
 <b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Currency translation differences arising during the half-year	<b>(626)</b>	1,257
<b>Total comprehensive income for the half-year</b>	<b><u>27,213</u></b>	<u>27,554</u>
 <b>Total comprehensive income for the half-year is attributable to:</b>		
Equity holders of Michael Hill International Limited	<b><u>27,213</u></b>	<u>27,554</u>
	<b>Cents</b>	Cents
<b>Earnings per share attributable to the ordinary equity holders of the Company during the half-year attributable to continuing operations:</b>		
Basic earnings per share	<b>7.27</b>	6.87
Diluted earnings per share	<b>7.23</b>	6.85

*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 2012**

	31 Dec 2012 \$'000	31 Dec 2011 \$'000	30 June 2012 \$'000
Notes			
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	13,424	32,545	12,064
Trade and other receivables	21,322	16,988	11,847
Inventories	<u>213,836</u>	<u>188,083</u>	<u>187,017</u>
Total current assets	<u>248,582</u>	<u>237,616</u>	<u>210,928</u>
<b>Non-current assets</b>			
Property, plant and equipment	54,896	45,535	47,116
Deferred tax assets	66,443	63,100	64,085
Intangible assets	44	106	70
Trade and other receivables	701	-	-
Other non-current assets	<u>2,287</u>	<u>-</u>	<u>1,449</u>
Total non-current assets	<u>124,371</u>	<u>108,741</u>	<u>112,720</u>
<b>Total assets</b>	<u>372,953</u>	<u>346,357</u>	<u>323,648</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	71,102	69,725	51,260
Current tax liabilities	6,252	6,856	5,325
Provisions	4,737	3,631	3,871
Deferred revenue	<u>12,256</u>	<u>5,200</u>	<u>8,330</u>
Total current liabilities	<u>94,347</u>	<u>85,412</u>	<u>68,786</u>
<b>Non-current liabilities</b>			
Borrowings	34,112	43,273	33,058
Provisions	2,004	1,952	2,062
Deferred revenue	<u>34,154</u>	<u>20,975</u>	<u>25,383</u>
Total non-current liabilities	<u>70,270</u>	<u>66,200</u>	<u>60,503</u>
<b>Total liabilities</b>	<u>164,617</u>	<u>151,612</u>	<u>129,289</u>
<b>Net assets</b>	<u>208,336</u>	<u>194,745</u>	<u>194,359</u>
<b>EQUITY</b>			
Contributed equity	4,162	4,083	4,083
Reserves	1,252	4,737	1,793
Retained profits	<u>202,922</u>	<u>185,925</u>	<u>188,483</u>
<b>Total equity</b>	<u>208,336</u>	<u>194,745</u>	<u>194,359</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 2012**

<b>Attributable to equity holders of Michael Hill International Limited</b>					
Notes	<b>Contributed equity</b>	<b>Options Reserve</b>	<b>Foreign currency translation reserve</b>	<b>Retained profits</b>	<b>Total equity</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2012</b>	4,083	1,386	407	188,483	194,359
Profit for the period	-	-	-	27,839	27,839
Other comprehensive income	-	-	(626)	-	(626)
	<u>4,083</u>	<u>1,386</u>	<u>(219)</u>	<u>216,322</u>	<u>221,572</u>
<b>Transactions with owners in their capacity as owners:</b>					
Employee shares issued	4	79	-	-	79
Option expense through share based payments reserve	4	-	85	-	85
Dividend paid	5	-	-	(13,400)	(13,400)
<b>Balance at 31 December 2012</b>	<u>4,162</u>	<u>1,471</u>	<u>(219)</u>	<u>202,922</u>	<u>208,336</u>
<b>Attributable to equity holders of Michael Hill International Limited</b>					
Notes	<b>Contributed equity</b>	<b>Options reserve</b>	<b>Foreign currency translation reserve</b>	<b>Retained profits</b>	<b>Total equity</b>
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 July 2011</b>	3,983	1,031	2,251	171,111	178,376
Profit for the period	-	-	-	26,297	26,297
Other comprehensive income	-	-	1,257	-	1,257
	<u>3,983</u>	<u>1,031</u>	<u>3,508</u>	<u>197,408</u>	<u>205,930</u>
<b>Transactions with owners in their capacity as owners:</b>					
Employee shares issued	4	100	-	-	100
Option expense through share based payments reserve	4	-	198	-	198
Dividend paid	5	-	-	(11,483)	(11,483)
<b>Balance at 31 December 2011</b>	<u>4,083</u>	<u>1,229</u>	<u>3,508</u>	<u>185,925</u>	<u>194,745</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 2012**

	31 Dec 2012 \$'000	31 Dec 2011 \$'000
<p><b>Cash flows from operating activities</b></p> <p>Receipts from customers (incl. of goods and services tax) <span style="float: right;">351,530</span> <span style="float: right;">325,731</span></p> <p>Payments to suppliers and employees (incl. of goods and services tax) <span style="float: right;"><u>(301,601)</u></span> <span style="float: right;"><u>(262,519)</u></span></p> <p style="text-align: right;"><b>49,929</b> <span style="float: right;"><b>63,212</b></span></p> <p>Interest received <span style="float: right;">35</span> <span style="float: right;">55</span></p> <p>Other revenue <span style="float: right;">182</span> <span style="float: right;">197</span></p> <p>Interest paid <span style="float: right;">(1,792)</span> <span style="float: right;">(2,501)</span></p> <p>Income tax paid <span style="float: right;">(7,669)</span> <span style="float: right;">(1,049)</span></p> <p>Net goods and services tax paid <span style="float: right;"><u>(12,571)</u></span> <span style="float: right;"><u>(13,114)</u></span></p> <p><b>Net cash inflow from operating activities</b> <span style="float: right;">9</span> <span style="float: right;"><u>28,114</u></span> <span style="float: right;"><u>46,800</u></span></p> <p><b>Cash flows from investing activities</b></p> <p>Proceeds from sale of property, plant and equipment <span style="float: right;">116</span> <span style="float: right;">145</span></p> <p>Payments for property, plant and equipment <span style="float: right;"><u>(14,703)</u></span> <span style="float: right;"><u>(9,108)</u></span></p> <p><b>Net cash outflow from investing activities</b> <span style="float: right;"><u>(14,587)</u></span> <span style="float: right;"><u>(8,963)</u></span></p> <p><b>Cash flows from financing activities</b></p> <p>Proceeds from borrowings <span style="float: right;">72,485</span> <span style="float: right;">30,744</span></p> <p>Repayment of borrowings <span style="float: right;">(71,213)</span> <span style="float: right;">(33,306)</span></p> <p>Proceeds from sale of treasury stock <span style="float: right;">71</span> <span style="float: right;">90</span></p> <p>Dividends paid to Company's shareholders <span style="float: right;">5</span> <span style="float: right;"><u>(13,400)</u></span> <span style="float: right;"><u>(11,483)</u></span></p> <p><b>Net cash outflow from financing activities</b> <span style="float: right;"><u>(12,057)</u></span> <span style="float: right;"><u>(13,955)</u></span></p> <p><b>Net increase in cash and cash equivalents</b> <span style="float: right;">1,470</span> <span style="float: right;">23,882</span></p> <p>Cash and cash equivalents at the beginning of the half-year <span style="float: right;">12,064</span> <span style="float: right;">8,540</span></p> <p>Effects of exchange rate changes on cash and cash equivalents <span style="float: right;"><u>(110)</u></span> <span style="float: right;"><u>123</u></span></p> <p><b>Cash and cash equivalents at end of the half-year</b> <span style="float: right;"><u>13,424</u></span> <span style="float: right;"><u>32,545</u></span></p>		

*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 2012 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 2012. 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 1993 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.

The reporting currency used in the preparation of these consolidated interim financial statements is New Zealand 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 4 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 segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter segment pricing is at arm's length or market value.

## 2 Segment Information (continued)

	MHJ NEW ZEALAND			MHJ AUSTRALIA			MHJ CANADA			MHJ USA			GROUP		
	2012 \$'000	2011 \$'000	+/-%	2012 \$'000	2011 \$'000	+/-%	2012 \$'000	2011 \$'000	+/-%	2012 \$'000	2011 \$'000	+/-%	2012 \$'000	2011 \$'000	+/-%
<b>Operating revenue</b>															
Sales to customers	63,117	60,908	3.6%	206,431	189,550	8.9%	36,184	30,354	19.2%	6,703	6,634	1.0%	312,435	287,446	8.7%
Unallocated revenue													431	1,400	(69.2%)
<b>Total operating revenue</b>													\$ 312,866	\$ 288,846	8.3%
<b>Segment results</b>															
Operating surplus / (loss)	12,945	12,192	6.2%	35,404	31,587	12.1%	1,856	1,524	21.8%	(1,555)	(1,781)	12.7%	48,650	43,522	11.8%
Unallocated revenue less unallocated expenses													(14,440)	(11,185)	(29.1%)
Profit before income tax													34,210	32,337	5.8%
Income tax expense													(6,371)	(6,040)	(5.5%)
<b>Profit for the year</b>													\$ 27,839	\$ 26,297	5.9%
<b>Segment assets</b>															
Unallocated	51,830	52,016	(0.4%)	146,858	129,386	13.5%	45,905	39,335	16.7%	13,505	13,995	(3.5%)	258,098	234,732	10.0%
Total													\$ 114,855	\$ 111,625	2.9%
													\$ 372,953	\$ 346,357	7.7%
<b>Segment liabilities</b>															
Unallocated	19,488	15,647	24.5%	66,660	50,196	32.8%	12,963	9,481	36.7%	3,112	2,542	22.4%	102,224	77,866	31.3%
Total													\$ 62,393	\$ 73,746	(15.4%)
													\$ 164,617	\$ 151,612	8.6%
<b>Segment acquisitions of property, plant &amp; equipment and intangibles</b>															
Unallocated	1,222	1,525	(19.9%)	9,287	5,676	63.6%	2,686	1,068	151.5%	153	134	14.5%	13,348	8,403	58.8%
Total													\$ 1,355	\$ 705	92.2%
													\$ 14,703	\$ 9,108	61.4%
<b>Segment depreciation and amortisation expense</b>															
Unallocated	985	931	5.9%	3,324	3,201	3.8%	981	817	20.1%	287	260	10.5%	5,578	5,209	7.1%
Total													\$ 833	\$ 884	(5.7%)
													\$ 6,411	\$ 6,093	5.2%

### 3 Property, plant and equipment

#### Acquisitions and disposals

During the six months ended 31 December 2012, the Group acquired assets with a total cost of \$14,703,000 (31 December 2011 - \$9,108,000). Assets with a net book value of \$150,000 were disposed of during the six months ended 31 December 2012 (31 December 2011 - \$568,000), resulting in a net loss on disposal of \$34,000 (31 December 2011 - \$423,000 loss).

### 4 Contributed equity

	<b>31 Dec 2012 Shares</b>	30 June 2012 Shares	<b>31 Dec 2012 \$'000</b>	30 June 2012 \$'000
<b>Share capital</b>				
Ordinary shares				
Fully paid	<b>383,053,190</b>	383,053,190	<b>4,263</b>	4,221
Treasury stock held for employee share scheme	<b>(203,646)</b>	<b>(277,604)</b>	<b>(101)</b>	<b>(138)</b>
	<b><u>382,849,544</u></b>	<b><u>382,775,586</u></b>	<b><u>4,162</u></b>	<b><u>4,083</u></b>
<b>Opening balance of ordinary shares issued</b>	<b>383,053,190</b>	383,053,190	<b>4,221</b>	4,177
<b>Issues of ordinary shares during the year</b>				
Employee share scheme issue	<b>73,958</b>	111,113	<b>79</b>	100
Transfer from treasury stock	<b>(73,958)</b>	<b>(111,113)</b>	<b>(37)</b>	<b>(56)</b>
<b>Closing balance of ordinary shares issued</b>	<b><u>383,053,190</u></b>	<b><u>383,053,190</u></b>	<b><u>4,263</u></b>	<b><u>4,221</u></b>

#### (a) Employee Share Scheme

During the half-year, 73,958 shares were issued to the Michael Hill International Limited Employee Share Scheme at an average price of \$0.96. 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.

#### 4 Contributed equity (continued)

##### (b) Options

The board has resolved to issue 750,000 share options during the 2013 financial year (including 400,000 share options to Mike Parsell in his capacity as CEO), to subscribe for ordinary shares in the Company to senior executives. The options have an exercise price of \$1.41, 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 17 August 2012 of the Company's results for the year to 30 June 2012.

#### 5 Dividends

	<b>31 Dec 2012 \$'000</b>	<b>31 Dec 2011 \$'000</b>
<b>(a) Ordinary shares</b>		
Final dividend for the year ended 30 June 2012 of 3.5 cents (2011 - 3.0 cents) per fully paid share paid on 5 October 2012 (2011 - 10 October 2011)	<b>13,400</b>	<b>11,483</b>
<b>(b) Dividends not recognised at the end of the half-year</b>		
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 2.5 cents per fully paid ordinary share (2011 - 2.0 cents). The aggregate amount of the proposed dividend expected to be paid on 3 April 2013 out of retained profits at 31 December 2012, but not recognised as a liability at the end of the half-year, is		
Interim dividend	<b>9,571</b>	<b>7,655</b>

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.

#### 6 Contingencies

##### (a) Contingent liabilities

###### *Guarantees*

The Group had contingent liabilities at 31 December 2012 in respect of guarantees to bankers and other financial institutions of subsidiary companies' overdraft facilities and fixed assets at 31 December 2012 of \$466,000 (31 December 2011 - \$438,000).

###### *Tax matters*

The Group has two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members. There have been no material changes in the resolution of the two matters as they were reported in the 2012 Annual Report.

The board does not consider that either of the tax matters require a provision in the Group's financial statements as at 31 December 2012.

No material losses are anticipated in respect of any of the above contingent liabilities.

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



## 6 Contingencies (continued)

### (b) Contingent assets

The Group has no material contingent assets existing as at balance date.

## 7 Related party transactions

There were no loans to Directors by the Company or associated persons at 31 December 2012.

The gross remuneration of the directors and key management personnel during the period was \$2,585,000 (31 December 2011 - \$1,990,000).

## 8 Events occurring after the reporting period

There were no significant events occurring after 31 December 2012.

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

	31 Dec 2012 \$'000	31 Dec 2011 \$'000
Profit for the half-year	27,839	26,297
Depreciation and amortisation	6,411	6,093
Non-cash employee benefits expense - share based payments	95	208
Other non-cash expenses	19	219
Net loss on sale of non-current assets	34	423
Net exchange differences	537	(1,438)
(Increase) in trade and other receivables	(10,324)	(8,192)
(Increase) in inventories	(28,035)	(12,246)
(Increase) in deferred tax asset	(2,408)	(2,413)
(Increase) in other non-current assets	(839)	-
Increase in trade and other payables	20,107	17,664
Increase in current tax liabilities	933	5,869
Increase in provisions	843	1,391
Increase in deferred revenue	12,902	12,925
Net cash inflow from operating activities	<u>28,114</u>	<u>46,800</u>

## Review report to the Shareholders of Michael Hill International Limited

We have reviewed the interim financial statements on pages 1 to 9. The interim financial statements provide information about the past financial performance of the Group and its financial position as at 31 December 2012.

This information is stated in accordance with the accounting policies set out in the Group's annual financial statements dated 16 August 2012.

This report is made solely to the Group's shareholders, as a body, in accordance with Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. Our review has been undertaken so that we might state to the Group'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 Group and the Group'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 of interim financial statements which comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements and which present fairly the financial position of the Group as at 31 December 2012 and the results of its operations and cash flows for the six month period ended on that date.

### Reviewer's Responsibilities

We are responsible for reviewing the interim financial statements presented by the directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the interim financial statements do not present fairly the matters to which they relate.

### Basis of Statement

A review is limited primarily to enquiries of Group personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, do not express an audit opinion.

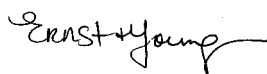
We have reviewed the interim financial statements of the Group for the six months ended 31 December 2012 in accordance with the Review Engagement Standards issued by the External Reporting Board. These standards require that we plan and perform the review to obtain moderate assurance as to whether the statements are free of material misstatement whether caused by fraud or error. We also evaluated the overall adequacy of the presentation of information in the interim financial statements.

Other than in our capacity as auditor we have no relationship with, or interest in, the Group or any of its subsidiaries.

### Statement of Review Findings

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 9, do not fairly present the financial position of the Group as at 31 December 2012 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 14 February 2013 and our findings are expressed as at that date.



Ernst & Young

Chartered Accountants  
Brisbane