

Michael Hill International Limited

Results for announcement to the market

Reporting Period	12 months to 30 June 2014
Previous Reporting Period	12 months to 30 June 2013

	Amount \$AU'000	Percentage Change %
Revenue from ordinary activities	483,935	9.9%
Profit from ordinary activities after tax attributable to members	25,041	-22.0%
Net profit for the period attributable to members	25,041	-22.0%

	Amount per security	Imputed amount per security
Final dividend for year ended 30 June 2014	4.0 cents	nil
Record date	26 September 2014	
Dividend payment date	3 October 2014	

Michael Hill International Limited's accounts have been audited and an unqualified audit opinion was given.

CHAIRMAN'S STATEMENT

As announced to the market on 3 October 2013, Michael Hill International Ltd now reports in Australian dollars and will restate prior period comparative numbers accordingly.

Profit Announcement

Michael Hill International Limited today announced an after tax profit of \$25.041m for the twelve months ended 30 June 2014. It should be noted that this result was impacted by the settlement of the dispute with the Australian Taxation Office arising from the intellectual property transfer in 2008, resulting in a payment of income tax of \$5.993m in the 2013-14 year. It should be further noted that an amount of \$2.313m is included in interest expense relating to the Group's participation in a tax pool, as detailed in notes 7 and 35 in the annual accounts.

Summary of Key Points (all values stated in AUD unless stated otherwise)

- Operating revenue of \$483.935m up 9.9% on same period last year
- Same store sales were 5.0% up on same period last year
- Professional Care Plan sales of \$31.719m up 19.6% on same period last year
- EBIT of \$42.151m up 4.7% on same period last year
- Final dividend of NZ 4.0 cps and total dividend of NZ 6.5 cps in line with last year
- Equity ratio of 53.3% at 30 June 2014
- 19 new Michael Hill stores opened and 8 closed during the period
- Total of 278 Michael Hill stores open at 30 June 2014
- Total of 6 Emma & Roe stores trading at 30 June 2014

Australian Retail Segment

The Australian retail segment increased its revenue by 4.4% to \$302.024m for the twelve months, with an operating surplus of \$46.703m, an increase of 10.6% on \$42.225m for the previous corresponding period.

Same store sales increased 0.8% for the twelve months (4.3% last year).

The operating surplus as a percentage of revenue was 15.5% (14.6% last year).

The Directors are pleased with the bottom line growth achieved in Australia after a difficult 2012-13 trading year.

Six new Michael Hill stores were opened in Australia during the period, as follows:

- Craigieburn, Victoria
- Geraldton, Western Australia
- Hinkler, Queensland
- Ocean Keys, Western Australia
- Waurin Ponds, Victoria
- Woodgrove Melton, Victoria

Four Michael Hill stores were closed during the period, giving a total of 164 Michael Hill stores operating at 30 June 2014.

As announced on 16 April 2014, the Group opened the first Emma & Roe store in Mackay, Queensland. There are six Emma & Roe stores operating in Australia at 30 June 2014. The Emma & Roe financial results are included in the Australian retail segment for 2013-14.

New Zealand Retail Segment

The New Zealand retail segment revenue decreased 1.5% to NZ\$109.693m for the twelve months, with an operating surplus of NZ\$22.062m, down 0.3% on the corresponding period last year.

Same store sales in local currency during the twelve months decreased by 1.9% (up 1.9% last year).

The operating surplus as a percentage of revenue was 20.1% (19.9% last year).

The Directors are pleased with the recovery of the New Zealand business during the period as a new management team settled in and a focus was placed on improving sales and controlling costs.

One store opened in New Zealand during the period at Ashburton. One store closed during the period, giving a total of 52 stores operating at 30 June 2014.

Canadian Retail Segment

The Canadian retail segment increased its revenue by 30.4% for the twelve months to CA\$69.025m and there was an operating surplus of CA\$3.794m compared to CA\$1.121m for the previous corresponding period. Same stores sales in local currency increased 10.1% for the twelve months (1.7% last year). The Directors are pleased with the progress of our Canadian business as it benefits from brand awareness in the market and from reaching a critical mass of stores.

Ten new stores were opened during the period, as follows:

- Bayshore, Ontario
- Brentwood, British Columbia
- Dufferin, Ontario
- Guildford Town Centre, British Columbia
- Hillcrest, Ontario
- Medicine Hat Mall, Alberta
- Niagara, Ontario
- Peter Pond, Alberta
- Place D'Orleans, Ontario
- Yonge Eglinton, British Columbia

One store closed during the period at Guildford, giving a total of 54 stores operating at 30 June 2014.

US Retail Segment

The US retail segment decreased its revenue by 2.6% to US\$9.994m for the twelve months and there was an operating loss of US\$1.679m for the same period, excluding the closing costs of two stores in June 2014 (US\$2.359m last year). The decision to exit two stores during the period and open two new stores is part of our continued testing of this lucrative market. The Group is committed to ensuring it has a top quality real estate portfolio for its ongoing test of the US market. The two new stores opened in the second half of the year are in better quality malls and have significantly greater revenue potential than the two stores closed during the same period.

Same stores sales in local currency increased 6.1% for the twelve months (6.4% last year).

Two new stores were opened in the US during the period, as follows:

- Easton Centre, Ohio
- Mall of America, Minnesota

Two stores were closed during the period, giving a total of 8 stores operating at 30 June 2014.

Professional Care Plan (PCP)

PCP sales for the financial year were \$31.719m. An amount of \$19.956m has been included as revenue in the segment figures stated above from the current and prior periods

PCP sales are carried on the balance sheet as deferred revenue and then brought to revenue in the statement of comprehensive income over the life of the plans (3 Year and Life Time) in proportion to the expected cost of meeting commitments from the PCP's. It is assumed that the liability for accounting purposes of the Life Time plans will expire within 10 years from date of sale. The estimate of expected commitments under the relevant PCP is based on a combination of our own experience and overseas research. These estimates will be updated as the Group gathers usage data over the coming years. The cost of meeting the liability under the respective PCP's is brought to account in the period

The following table summarises the revenue treatment of the PCP business.

	Last Year	This Year
PCP sales for the year	\$26.520m	\$31.719m
PCP revenue brought to income for the year	\$13.185m	\$19.956m
Deferred revenue carried forward on balance sheet	\$39.159m	\$51.588m

Outstanding Tax Issues from Group Restructuring in 2008

At the commencement of the year, the Group had two unresolved tax matters relating to the sale and financing of the intellectual property between New Zealand and Australian Group members in 2008, as previously reported.

The Group announced to the market on 1 April 2014 that it's previously disclosed issues with the Australian Tax Office (ATO) arising from the transfer of the intellectual property (IP) from a New Zealand subsidiary to an Australian subsidiary had been fully resolved by way of the execution of a formal Deed of Settlement. Under that Deed, the Group agreed to pay an aggregate of \$5.993m to the ATO. This amount is reflected in the income tax expense in the financial statements for the period ended 30 June 2014. The settlement acknowledged the Group's valuation of the IP and leaves in place the original deferred tax asset of NZ\$50.197m and consequently all of the associated Australian income tax deductions for future years.

Discussions continue with the Inland Revenue Department within their dispute process framework, but it remains unclear when final resolution will be achieved in respect of this matter. As previously disclosed, they concern the tax treatment adopted by the Group in relation to the financing arrangements between New Zealand and Australian Group members for the 2009, 2010, 2011, 2012 and 2013 financial years. The aggregate amount of tax deductions claimed by the Group in respect of these years and which is in dispute is NZ\$31.042m. If the matter were determined against the Group, there is also a contingent liability for Use of Money Interest ('UOMI') at the rates prescribed by the IRD in respect of those years. The Group has entered into a tax pooling arrangement to mitigate the impact of UOMI and this is reflected in the Group's interest expense at Note 7.

The Group continues to defend its position in relation to the relevant tax returns. The Board does not consider that this tax matter requires a provision in the Group's financial statements due to the uncertainty surrounding both the litigation being brought by the Inland Revenue and the inability to estimate any potential liability should it crystallise.

Dividend

The Directors have announced a final dividend of NZ 4cps (2013 – NZ 4cps), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The decision to maintain dividends at the same level as 2012-13 reflects the flat trading conditions in our two most profitable markets, Australia and New Zealand. It also factors in the company's ambitions for growth in the coming years for both the Michael Hill and Emma & Roe brands. The dividend will be paid on Friday, 3 October 2014 with the record date being Friday, 26 September 2014.

Cash Flows / Balance Sheets

The Group has reported a net operating cash inflow of \$14.689m for the twelve months, compared to a net operating cash inflow of \$41.686m for the previous year. This reduction in operating cash flow has resulted primarily from the decision to trial a new bridal range of product in our US stores and in selected Canadian stores last December. In addition, the Group settled the tax dispute with the Australian Taxation Office (\$5.993m) and funds were paid (\$2.313m) into a tax pool in New Zealand in relation to the ongoing dispute with the Inland Revenue. In-house debtors increased \$4.908m during the period.

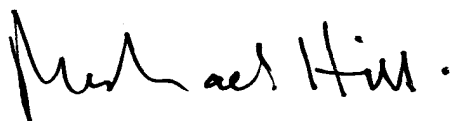
Cash flow from operating activities is a result of:

• Profit excluding non-cash items	\$39.964m
• Increase in deferred revenues from Professional Care Plan	\$12.970m
• Increase in inventory levels	(\$23.818)m
• Increase in trade and other receivables	(\$6.156)m
• Other miscellaneous items	(\$8.271)m
Net cash inflow from operating activities for the year	\$14.689m

The Group's balance sheet finished the period with an equity ratio of 53.3% as at 30 June 2014 (59.4% in 2013).

Summary

The Directors are satisfied with the overall performance and they remain confident in the continued growth and profitability of the Group



Sir Michael Hill 14/08/2014

Chairman

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STATEMENT OF COMPREHENSIVE INCOME	Statement of Comprehensive Income		
	Current full year \$AU'000	% Change	Previous corresponding full year \$AU'000
Revenue			
Trading revenue	483,935	9.9%	440,225
Other revenue	764	130.1%	332
Total operating revenue	484,699	10.0%	440,557
Expenses			
Cost of goods sold	(173,504)	8.7%	(159,681)
Employee benefits expense	(127,010)	12.7%	(112,707)
Occupancy costs	(47,287)	13.2%	(41,761)
Selling expenses	(23,203)	(6.1%)	(24,707)
Marketing expenses	(26,818)	10.1%	(24,360)
Depreciation and amortisation expense	(13,070)	25.0%	(10,452)
Loss on disposal of property, plant & equipment	(1,133)	1033.0%	(100)
Other expenses	(30,463)	15.1%	(26,464)
Finance costs	(5,436)	110.0%	(2,588)
Profit before income tax	36,775	(2.5%)	37,737
Income tax (expense)	(11,734)	108.1%	(5,638)
Profit attributable to owners of Michael Hill International Limited	25,041	(22.0%)	32,099

INCLUDED IN STATEMENT OF COMPREHENSIVE INCOME ABOVE

Interest income	60	(9.1%)	66
Net foreign exchange gain / (loss)	(351)	145.5%	(143)
Depreciation	11,847	20.8%	9,811
Amortisation	1,223	90.8%	641
Net loss on disposal of property, plant & equipment	1,133	1033.0%	100
Rental expense relating to operating leases	47,287	13.2%	41,761
Donations	27	8.0%	25

DIVIDENDS	Dividends	
	Current full year \$AU'000	Previous corresponding full year \$AU'000
Final dividend for the year ended 30 June 2013 of NZ 4.0 cents (2012 - NZ 3.5 cents) per fully paid share paid on 4 October 2013 (2012 - 5 October 2012).	13,462	10,678
Interim dividend for the year ended 30 June 2014 of NZ 2.5 cents (2013 - NZ 2.5 cents) per fully paid share paid on 1 April 2014 (2013 - 3 April 2013).	8,874	7,804
Total dividends provided for or paid	22,336	18,482

EARNINGS PER SECURITY	Earnings Per Security	
	Current full year AU Cents	Previous corresponding full year AU Cents
Basic EPS	6.54	8.38
Diluted EPS	6.43	8.24

STATEMENT OF FINANCIAL POSITION	Statement of Financial Position		
	At end of current full year \$AU'000	% Change	At end of previous full year \$AU'000
ASSETS			
Current Assets			
Cash and cash equivalents	8,109	(22.5%)	10,461
Trade and other receivables	25,143	60.6%	15,653
Inventories	179,280	16.2%	154,293
Current tax receivables	61	-	-
Total current assets	212,593	17.8%	180,407
Non-current assets			
Trade and other receivables	480	(56.0%)	1,092
Property, plant and equipment	55,400	12.7%	49,140
Intangible assets	6,413	76.6%	3,632
Deferred tax assets	62,324	11.2%	56,064
Other non-current assets	2,608	30.4%	2,000
Total non-current assets	127,225	13.7%	111,928
Total assets	339,818	16.2%	292,335
LIABILITIES			
Current liabilities			
Trade and other payables	42,034	1.8%	41,286
Current tax liabilities	-	-	2,706
Provisions	4,235	10.2%	3,844
Deferred revenue	24,736	88.2%	13,141
Total current liabilities	71,005	16.4%	60,977
Non-current liabilities			
Borrowings	56,000	100.0%	28,000
Provisions	1,740	3.6%	1,680
Deferred revenue	29,788	6.4%	27,993
Total non-current liabilities	87,528	51.8%	57,673
Total liabilities	158,533	33.6%	118,650
Net assets	181,285	4.4%	173,685
EQUITY			
Contributed equity	3,651	6.6%	3,424
Reserves	5,796	413.8%	1,128
Retained profits	171,838	1.6%	169,133
Total equity	181,285	4.4%	173,685

NET TANGIBLE ASSETS	Net Tangible Assets	
	Current full year A\$ / Share	Previous corresponding full year A\$ / Share
Net tangible assets	\$ 0.46	\$ 0.44

CASH FLOW STATEMENTS	Cash flow statements	
	Current full year \$AU'000	Previous corresponding full year \$AU'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST and sales taxes)	540,581	496,232
Payments to suppliers and employees (inclusive of GST and sales taxes)	(472,170)	(410,727)
Interest received	61	66
Other revenue	764	348
Interest paid	(5,357)	(2,225)
Income tax paid	(15,542)	(9,442)
Net goods and services tax paid	(33,648)	(32,566)
Net cash inflow / (outflow) from operating activities	14,689	41,686
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	102	415
Payments for property, plant and equipment	(19,687)	(24,691)
Payments for intangible assets	(3,540)	(691)
Net cash inflow / (outflow) from investing activities	(23,125)	(24,967)
Cash flows from financing activities		
Proceeds from borrowings	90,000	71,000
Repayment of borrowings	(62,000)	(69,000)
Proceeds from sale of treasury stock	102	56
Proceeds from share options exercised	102	-
Dividends paid to company's shareholders	(22,336)	(18,482)
Net cash inflow / (outflow) from financing activities	5,868	(16,426)
Net increase / (decrease) in cash and cash equivalents	(2,568)	293
Cash and cash equivalents at the beginning of the financial year	10,461	9,488
Effects of exchange rate changes on cash and cash equivalents	216	680
Cash and cash equivalents at the end of year	8,109	10,461

STATEMENT OF CHANGES IN EQUITY	Statements of Changes in Equity	
	Current full year \$AU'000	Previous corresponding full year \$AU'000
Total equity at the beginning of the financial year	173,685	152,862
Profit for the year	25,041	32,099
Exchange differences on translation of foreign operations	4,239	7,030
Cash flow hedges taken to equity	(277)	-
Total recognised income and expense for the year	29,003	39,129
Transactions with equity holders in their capacity as equity holders		
Issue of share capital on exercise of options	102	-
Employee share scheme issue	113	62
Option reserve movement	718	114
Dividends provided for or paid	(22,336)	(18,482)
Total equity at the end of the financial year	181,285	173,685

ISSUED AND QUOTED SECURITIES	Issued Securities	
	At end of current full year No. of Shares	At end of previous full year No. of Shares
Ordinary Shares:		
Fully Paid	383,153,190	383,053,190
Treasury stock held for employee share scheme	(111,584)	(203,646)
	383,041,606	382,849,544
Options issued during the year	5,900,000	750,000
Options exercised during the year	(100,000)	-
Options cancelled during the year	(300,000)	-

Issued Options:

	Issued	Exercise Price	Expiry Date
Options issued 7 November 2007	4,250,000	\$1.25	30/09/2017
Options issued 24 August 2009	100,000	\$0.94	30/09/2019
Options issued 5 November 2009	150,000	\$0.94	30/09/2019
Options issued 17 September 2010	250,000	\$0.88	30/09/2020
Options issued 5 November 2010	400,000	\$0.94	30/09/2019
Options issued 5 November 2010	400,000	\$0.88	30/09/2020
Options issued 16 September 2011	650,000	\$1.16	30/09/2021
Options issued 19 September 2012	650,000	\$1.41	30/09/2022
Options issued 18 September 2013	650,000	\$1.82	30/09/2023
Options issued 29 November 2013	5,250,000	\$1.82	30/09/2023

SUBSIDIARIES		Subsidiaries	
		Current full year % Ownership	Previous corresponding full year % Ownership
Name of Entity	Country of Incorporation		
Michael Hill Jeweller Limited	New Zealand	100%	100%
Michael Hill Trustee Company Limited	New Zealand	100%	100%
MHJ (US) Limited	New Zealand	100%	100%
Michael Hill Finance (NZ) Limited	New Zealand	100%	100%
Michael Hill Franchise Holdings Limited	New Zealand	100%	100%
Emma & Roe NZ Limited	New Zealand	100%	-
Michael Hill Online Holdings Limited	New Zealand	100%	-
Michael Hill Jeweller (Australia) Pty Limited	Australia	100%	100%
Michael Hill Wholesale Pty Limited	Australia	100%	100%
Michael Hill Manufacturing Pty Limited	Australia	100%	100%
Michael Hill Finance (Limited Partnership)	Australia	100%	100%
Michael Hill Group Services Pty Limited	Australia	100%	100%
Michael Hill Franchise Pty Limited	Australia	100%	100%
Michael Hill Franchise Services Pty Limited	Australia	100%	100%
Michael Hill Charms Pty Limited	Australia	100%	-
Michael Hill Online Pty Limited	Australia	100%	-
Emma & Roe Pty Limited	Australia	100%	-
Emma & Roe Online Pty Limited	Australia	100%	-
Michael Hill Jeweller (Canada) Limited	Canada	100%	100%
Michael Hill LLC	United States	100%	100%

Statement of segmented results

for the year ended 30 June 2014

	MHJ AUSTRALIA			MHJ NEW ZEALAND			MHJ CANADA			MHJ USA			GROUP		
	2014 AU\$'000	2013 AU\$'000	+/-%	2014 AU\$'000	2013 AU\$'000	+/-%	2014 AU\$'000	2013 AU\$'000	+/-%	2014 AU\$'000	2013 AU\$'000	+/-%	2014 AU\$'000	2013 AU\$'000	+/-%
Operating revenue															
Sales to customers	302,024	289,333	4.4%	99,496	89,204	11.5%	70,454	51,438	37.0%	10,899	10,007	8.9%	482,873	439,982	9.7%
Unallocated revenue													1,062	243	337.0%
Total operating revenue													\$ 483,935	\$ 440,225	9.9%
Segment results															
Operating surplus / (loss)	46,703	42,225	10.6%	20,083	17,748	13.2%	3,890	1,098	254.3%	(1,898)	(2,282)	16.8%	68,778	58,789	17.0%
Unallocated revenue less unallocated expenses													(32,003)	(21,052)	(52.0%)
Profit before income tax													36,775	37,737	(2.5%)
Income tax (expense)													(11,734)	(5,638)	(108.1%)
Profit for the year													\$ 25,041	\$ 32,099	(22.0%)
Segment assets	112,575	109,571	2.7%	44,273	40,094	10.4%	53,502	43,765	22.2%	13,275	9,910	34.0%	223,625	203,340	10.0%
Unallocated													116,193	88,995	30.6%
Total													\$ 339,818	\$ 292,335	16.2%
Segment liabilities	59,249	50,185	18.1%	18,326	14,185	29.2%	11,851	9,978	18.8%	2,962	2,373	24.8%	92,388	76,721	20.4%
Unallocated													66,145	41,929	57.8%
Total													\$ 158,533	\$ 118,650	33.6%
Segment acquisitions of property, plant & equipment and intangibles															
	6,865	13,885	(50.6%)	3,860	1,455	165.3%	6,999	5,300	32.1%	1,761	204	763.2%	19,485	20,844	(6.5%)
Unallocated													3,742	4,538	(17.5%)
Total													\$ 23,227	\$ 25,382	(8.5%)
Segment depreciation and amortisation expense															
	6,132	5,473	12.0%	2,037	1,589	28.2%	2,357	1,641	43.6%	531	461	15.2%	11,057	9,164	20.7%
Unallocated													2,013	1,288	56.3%
Total													\$ 13,070	\$ 10,452	25.0%

Notes:

- 1 Michael Hill International Limited and its controlled entities operate predominantly in one business segment being the sale of jewellery and related services.
- 2 The company operates in 4 geographical segments; New Zealand, Australia, Canada and the United States of America and is managed on a global basis.
- 3 Inter segment pricing is at arm's length or market value.
- 4 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.
- 5 Costs of A\$565k relating to the closure of 2 US stores during the 2013-14 financial year are not included in the US retail segment. These costs are included as unallocated costs.