Michael Hill International Limited
Statement of comprehensive income
For the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Revenue from continuing operations	5	**503,370**	483,935
Other income	6	**2,259**	764
Cost of goods sold		**(181,135)**	(173,504)
Employee benefits expense		**(130,937)**	(127,010)
Occupancy costs	7	**(50,640)**	(47,287)
Marketing expenses		**(31,906)**	(26,818)
Selling expenses		**(22,748)**	(23,203)
Depreciation and amortisation expense	7	**(15,738)**	(13,070)
Loss on disposal of property, plant and equipment	7	**(204)**	(1,133)
Other expenses		**(30,211)**	(30,463)
Finance costs	7	**(4,708)**	(5,436)
Profit before income tax		**37,402**	36,775
Income tax expense	8	**(9,648)**	(11,734)
Profit for the year		**27,754**	25,041
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges		**(491)**	(277)
Currency translation differences arising during the year		**2,115**	4,239
Other comprehensive income for the year, net of tax		**1,624**	3,962
Total comprehensive income for the year		**29,378**	29,003
Total comprehensive income for the year is attributable to:			
Owners of Michael Hill International Limited		**29,378**	29,003

		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the Company during the year, attributable to continuing operations:			
Basic earnings per share	28	**7.24**	6.54
Diluted earnings per share	28	**7.22**	6.43

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

	Notes	**2015 $'000**	2014 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**6,797**	8,109
Trade and other receivables	10	**24,859**	25,143
Inventories	11	**182,232**	179,280
Current tax receivables	12	**11,376**	61
Other current assets	13	**3,143**	-
Total current assets		**228,407**	212,593
Non-current assets			
Trade and other receivables	14	**636**	480
Property, plant and equipment	15	**64,845**	55,400
Intangible assets	17	**6,491**	6,413
Deferred tax assets	16	**48,381**	62,324
Other non-current assets	18	**2,253**	2,608
Total non-current assets		**122,606**	127,225
Total assets		**351,013**	339,818
LIABILITIES			
Current liabilities			
Trade and other payables	19	**43,739**	42,034
Provisions	20	**4,624**	4,235
Deferred revenue	21	**21,516**	24,736
Total current liabilities		**69,879**	71,005
Non-current liabilities			
Borrowings	22	**45,116**	56,000
Provisions	23	**4,254**	1,740
Deferred revenue	24	**44,143**	29,788
Total non-current liabilities		**93,513**	87,528
Total liabilities		**163,392**	158,533
Net assets		**187,621**	181,285
EQUITY			
Contributed equity	25	**3,760**	3,651
Reserves	26	**7,445**	5,796
Retained profits	26	**176,416**	171,838
Total equity		**187,621**	181,285

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

	Notes	Attributable to members of Michael Hill International Limited					
		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 year		-	-	-	-	25,041	25,041
Currency translation differences		-	-	4,239	-	-	4,239
Currency forward contracts		-	-	-	(17)	-	(17)
Interest rate swaps		-	-	-	(260)	-	(260)
Total comprehensive income		-	-	4,239	(277)	25,041	29,003
Transactions with owners in their capacity as owners:							
Dividends paid	27	-	-	-	-	(22,336)	(22,336)
Issue of share capital - exercise of options	31(a)	102	-	-	-	-	102
Employee shares issued	31(b)	113	-	-	-	-	113
Option expense through share based payments reserve	31(c)	-	758	-	-	-	758
Forfeiture of issued options	31(c)	-	(40)	-	-	-	(40)
Transfer option reserve to contributed equity on exercise of options		12	(12)	-	-	-	-
		227	706	-	-	(22,336)	(21,403)
Balance at 30 June 2014		3,651	1,918	4,155	(277)	171,838	181,285
Profit for the year		-	-	-	-	27,754	27,754
Currency translation differences		-	-	2,115	-	-	2,115
Currency forward contracts		-	-	-	77	-	77
Interest rate swaps		-	-	-	(568)	-	(568)
Total comprehensive income		-	-	2,115	(491)	27,754	29,378
Transactions with owners in their capacity as owners:							
Dividends paid	27	-	-	-	-	(23,176)	(23,176)
Employee shares issued	31(b)	109	-	-	-	-	109
Option expense through share based payments reserve	31(c)	-	162	-	-	-	162
Forfeiture of issued options	31(c)	-	(137)	-	-	-	(137)
		109	25	-	-	(23,176)	(23,042)
Balance at 30 June 2015		3,760	1,943	6,270	(768)	176,416	187,621

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

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		**566,544**	540,581
Payments to suppliers and employees (inclusive of GST and sales taxes)		**(462,663)**	(472,170)
		103,881	68,411
Interest received		**49**	60
Other revenue		**477**	765
Interest paid		**(4,626)**	(5,357)
Income tax paid		**(9,105)**	(15,542)
Net GST and sales taxes paid		**(36,110)**	(33,648)
Net cash inflow / (outflow) from operating activities	32	**54,566**	14,689
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**283**	102
Payments for property, plant and equipment		**(20,190)**	(19,687)
Payments for intangible assets		**(1,925)**	(3,540)
Net cash inflow / (outflow) from investing activities		**(21,832)**	(23,125)
Cash flows from financing activities			
Proceeds from borrowings		**68,507**	90,000
Repayments of borrowings		**(79,500)**	(62,000)
Proceeds from sale of treasury stock		**98**	102
Payments from share options exercised		**-**	102
Dividends paid to Company's shareholders	27	**(23,176)**	(22,336)
Net cash inflow / (outflow) from financing activities		**(34,071)**	5,868
Net increase / (decrease) in cash and cash equivalents		**(1,337)**	(2,568)
Cash and cash equivalents at the beginning of the year		**8,109**	10,461
Effects of exchange rate changes on cash and cash equivalents		**25**	216
Cash and cash equivalents at end of year	9	**6,797**	8,109

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

1 Summary of significant accounting policies

(a) Basis of preparation

The financial statements for the year ended 30 June 2015 have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-oriented entities.

Compliance with IFRS

New Zealand Accounting Standards include New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the consolidated financial statements, Parent Entity and notes of Michael Hill International Limited comply with International Financial Reporting Standards (IFRS).

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Entities reporting

The financial statements for the Group are for the economic entity comprising Michael Hill International Limited and its subsidiaries.

The Group is designated as a profit-oriented entity for financial reporting purposes.

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 Company is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 2013, Financial Markets Conduct Act 2013 and the Companies Act 1993.

In accordance with the Financial Markets Conduct Act 2013, because the financial statements are prepared and presented for Michael Hill International Ltd and its subsidiaries, separate financial statements for Michael Hill International Ltd are no longer required to be prepared and presented.

These consolidated financial statements have been approved for issue by the Board of Directors on 13 August 2015.

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

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the measurement of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Michael Hill International Limited ('Company' or 'Parent Entity') as at 30 June 2015 and the results of all subsidiaries for the year then ended. Michael Hill International Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

1 Summary of significant accounting policies (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Investments in subsidiaries are accounted for at cost in the individual financial statements of Michael Hill International Limited.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group has formed Michael Hill Trustee Company Limited to administer the Group's Employee Share Scheme. Shares held by the Trust are disclosed as treasury shares and deducted from contributed equity.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Executive Management team.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Group financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which have the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statements of financial position presented are translated at the closing rate at the date of the statements of financial position;
- income and expenses for each profit and loss component of the statements of comprehensive income are translated at average exchange rates, unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of foreign entities are treated as assets and liabilities of the foreign entities and translated at the closing rate.

1 Summary of significant accounting policies (continued)

(e) Revenue recognition

(i) Sales of goods - retail

Sales of goods are recognised when a Group entity delivers a product to the customer. Retail sales are usually by cash, payment plan or credit card. The recorded revenue is the gross amount of sale (excluding taxes), including any fees payable for the transaction.

It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(ii) Rendering of services - deferred service revenue

The Group offers a professional care plan ("PCP") product which is considered deferred revenue until such time that service has been provided. A PCP is a plan under which the Group offers future services to customers based on the type of plan purchased. The Group subsequently recognises the income in revenue in the statement of comprehensive income once these services are performed. An estimate is used as a basis to establish the amount of service revenue to recognise in the statement of comprehensive income.

(iii) Rendering of services - repairs

Sales of services for repair work performed is recognised in the accounting period in which the services are rendered.

(iv) Interest revenue from in-house customer finance program

Interest revenue is recognised on the in-house customer finance program when consideration is deferred. It is calculated as the difference between the nominal cash and cash equivalents received from customers and the discounted cashflows, on both interest and non-interest bearing products. Interest revenue is brought to account over the term of the finance agreement, and the rate used for non-interest bearing products is in line with current, comparable market rates.

(v) Interest income

Interest income is recognised using the effective interest method.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Parent Entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1 Summary of significant accounting policies (continued)

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance charges. The finance cost is charged to the comprehensive income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of 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 comprehensive income statement on a straight-line basis over the period of the lease.

(h) Impairment of assets

At each annual reporting date (or more frequently if events or changes in circumstances indicate that they might be impaired), the Group assesses whether there is any indication that an asset may be impaired. Where such an indication is identified, the Group estimates the recoverable amount of the asset and recognises an impairment loss where the recoverable amount is less than the carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use.

In addition, at least annually, goodwill and intangible assets with indefinite useful lives are tested for impairment by comparing their estimated recoverable amounts with their carrying amounts. Where the recoverable amount exceeds the carrying amount of an asset, an impairment loss is recognised.

The discount rates used in determining the recoverable amount ranged between 10.2% and 11.9% (2014: 10.5% and 12.0%).

(i) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

(k) Deferred expenditure

Direct and incremental bonuses associated with the sale of professional care plans are deferred and amortised in proportion to the professional care plan revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the cost recognition rates used.

1 Summary of significant accounting policies (continued)

(l) Inventories

Raw materials and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Investments and other financial assets

The Group classifies its investments and other financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(n) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are:

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within other income or other expenses.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

1 Summary of significant accounting policies (continued)

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(p) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All costs are charged to the profit and loss component of the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Plant and equipment	5 - 6 years
- Motor vehicles	3 - 5 years
- Fixtures and fittings	6 - 10 years
- Leasehold improvements	6 - 10 years
- Display materials	6 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the comprehensive income statement.

(q) Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programs 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. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

1 Summary of significant accounting policies (continued)

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Deferred revenue represents lease incentives for entering new lease agreements and revenue from PCPs.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. 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.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

Borrowings are classified as current liabilities when repayment is due within twelve months.

(t) Provisions

Provisions for legal claims, sales returns, lifetime battery replacement and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to passage of time is recognised as interest expense.

(u) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. All short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

All Australian and Canadian employees of the Group are entitled to benefits on retirement, disability or death from the Group’s defined contribution superannuation plans. The defined contribution superannuation plans receive fixed contributions from Group companies and the Group’s legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1 Summary of significant accounting policies (continued)

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Michael Hill International Limited Employee Share Scheme and from time to time options are issued to Executives of Michael Hill International Limited in accordance with the Company's constitution. The Board of Directors of the Group pass a resolution approving the issue of the options. The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date for options issued during 2015 were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. It also assumes the options will be exercised at the mid-point of the exercise period.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital. Proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised. The ten percent discount on the market value of shares issued to employees under the employee share scheme is recognised as an employee benefits expense when the shares are issued.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity until the associated shares are cancelled, reissued or disposed of. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(w) Dividends

Provision is made for the amount of any dividends declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

(x) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

1 Summary of significant accounting policies (continued)

(y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations of existing standards have been published that are not mandatory for 30 June 2015 reporting periods.

- **NZ IFRS 9 Financial Instruments: Classification and measurement** (effective 1 January 2018). NZ IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

  There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from NZ IAS 39 Financial Instruments: Recognition and Measurement and have not been changed. The Group has not yet decided when to adopt NZ IFRS 9.

- **NZ IFRS 15 Revenue from Contracts with Customers** (effective 1 January 2018). The International Accounting Standards Board (IASB) in its July 2015 meeting decided to confirm its proposal to defer the effective date of IFRS 15 (the international equivalent of NZ IFRS 15) from 1 January 2017 to 1 January 2018. The amendment to give effect to the new effective date for IFRS 15 is expected to be issued in September 2015 . At this time, it is expected that the NZ ASB will make a corresponding amendment to NZ IFRS 15, which will mean that the application date of this standard for the Group will move from 1 July 2017 to 1 July 2018. NZ IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. NZ IFRS 15 supersedes:

  (a) NZ IAS 11 Construction Contracts

  (b) NZ IAS 18 Revenue

  (c) NZ IFRIC 13 Customer Loyalty Programmes

  (d) NZ IFRIC 15 Agreements for the Construction of Real Estate

  (e) NZ IFRIC 18 Transfers of Assets from Customers

  (f) NZ SIC-31 Revenue – Barter transactions Involving Advertising Services.

  The core principle of NZ IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  The standard is not applicable until 1 January 2018 but is available for early adoption. The Group has not yet assessed the potential impact of this change.

2 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk.

The Board of Directors are responsible for risk management. The Group's overall risk management program includes a focus on financial risk including the unpredictability of financial markets and foreign exchange risk.

The policies are implemented by the central finance function that undertakes regular reviews to enable prompt identification of financial risks so that appropriate actions may be taken.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency and net investments in foreign operations.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Where it considers appropriate, the Group enters into forward foreign exchange contracts to buy specified amounts of various foreign currencies in the future at a pre-determined exchange rate.

Foreign exchange forward contracts measured through Other comprehensive income are designated as hedging instruments in cash flow hedges of forecast purchases in USD. These forecast transactions are highly probable.

The cash flow hedges of the expected future purchases were assessed to be highly effective and a net unrealised gain of $77,000 (2014: $17,000 loss) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

Forward exchange contracts - cash flow hedges

The cash flows are expected to occur at various dates up to three months from the balance date. At balance date, the details of outstanding contracts are:

	Sell Australian Dollars		**Average Exchange Rate**	
	2015	2014	**2015**	2014
	US$'000	US$'000		
Buy US Dollars				
Maturity 0 - 3 months	**2,810**	9,000	**0.7800**	0.9382
	2,810	9,000	**0.7800**	0.9382

Amounts disclosed above represent currency sold, measured at the contracted rate.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	30 June 2015			30 June 2014		
	USD	**NZD**	**CAD**	USD	NZD	CAD
	$'000	**$'000**	**$'000**	$'000	$'000	$'000
Cash and cash equivalents	**1,096**	**1,647**	**2,526**	654	2,683	1,928
Trade receivables	**1,813**	**1,013**	**8,225**	1,590	1,652	8,834
Trade payables	**1,501**	**710**	**503**	2,167	1,128	206

Group sensitivity

The Group's principal foreign currency exposures arise from trade payables and receivables outstanding at year end.

2 Financial risk management (continued)

Based on the USD trade payables due for payment at 30 June 2015, had the Australian dollar weakened/strengthened by 10% against the USD with all other variables held constant, the Group's equity for the year would have been $218,000 lower / $179,000 higher (2014: $256,000 lower / $209,000 higher).

Most trade payables are repaid within 30 days so there is minimal equity impact arising from foreign currency exposures.

Based on the CAD receivables at 30 June 2015, had the Australian dollar weakened/strengthened by 10% against the Canadian dollar with all other variables held constant, the Group's equity for the year would have been $970,000 higher / $794,000 lower (2014: $975,000 higher / $798,000 lower).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of New Zealand, Canada and United States. The effect on the FX translation reserve is contained in the statement of changes in equity.

(ii) Cash flow and fair value interest rate risk
The Group's main interest rate risk arises from long-term borrowings and cash. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain fixed interest cover of between 50% and 100% of core debt up to 12 months, between 30% and 80% of cover debt between 1 and 3 years, and up to 60% of core debt between 3 and 5 years.

To manage variable interest rate borrowings risk, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

As at the reporting date, the Group had the following borrowings outstanding:

	30 June 2015		30 June 2014	
	Weighted average interest rate %	**Balance $'000**	Weighted average interest rate %	Balance $'000
Variable rate fully drawn down advance facility	**2.84 %**	45,116	3.31 %	56,000

An analysis by maturity and a summary of the terms and conditions is in note 22.

In order to reduce the variability of the future cash flows in relation to the interest bearing loans, the Group has entered into Australian Dollar interest rate swap contracts under which it has a right to receive interest at variable rates and to pay interest at fixed rates. Swaps in place cover approximately 55.4% (2014: 26.8%) of the variable rate principal outstanding.

The interest rate swaps are designated as cash flow hedging instruments. Changes in the interest paid on the variable rate fully drawn down advance facility are measured at fair value through Other comprehensive income.

The cash flow hedges were assessed to be highly effective and a net realised loss of $568,000 (2014: $260,000) is included in Other comprehensive income. The fair value liability is included in Trade and other payables.

2 Financial risk management (continued)

The notional principal amounts and period of expiry of the interest rate derivatives contracts are as follows:

	Rate %	Group 2015 $'000	Group 2014 $'000
Swap terminating 1 July 2016	**3.29**	**5,000**	5,000
Swap terminating 1 September 2017	**3.46**	**5,000**	5,000
Swap terminating 1 May 2018	**3.58**	**5,000**	5,000
Swap terminating 12 September 2018	**3.44**	**5,000**	-
Swap terminating 12 September 2019	**3.60**	**5,000**	-
		25,000	15,000

The interest rate derivatives require settlement of net interest receivable or payable each 30 days and are settled on a net basis.

Group sensitivity

At 30 June 2015, if interest rates had changed by -/+ 100 basis points from the year end rates with all other variables held constant, the Group's equity for the year would have been $451,000 higher / lower (2014: $560,000 higher / lower), mainly as a result of lower / higher interest expense on variable borrowings. All other non-direct financial liabilities have a contractual maturity of less than 6 months.

(b) Credit risk

Credit risk is managed on a Group basis and refers to the risk of a counterparty failing to discharge an obligation. In the normal course of business, the Group incurs credit risk from trade receivables and transactions with financial institutions. The Group places its cash and short term deposits with only high credit quality financial institutions. Sales to retail customers are required to be settled via cash, major credit cards or passed onto various credit providers in each country.

In-house customer finance was established in Canada and the United States in October 2012. Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

An impairment analysis is performed at each reporting date. The maximum exposure to credit risk is the carrying value of in-house customer finance program as disclosed in note 10. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as low.

(c) Liquidity risk

The Group maintains prudent liquidity risk management with sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities.

Please see note 22 for more information on the Group's borrowings, financing arrangements and interest rate exposures.

(d) Capital risk management

The main objective of capital risk management is to ensure the Group operates as a going concern, meets debts as they fall due, maintains the best possible capital structure, and reduces the cost of capital. Group capital is regarded as equity as shown in the statement of financial position. To maintain or alter the capital structure, the Group has the ability to review the size of the dividends paid to shareholders, return capital or issue new shares, reduce or increase debt or sell assets.

There are a number of external bank covenants in place relating to debt facilities. These covenants are calculated and reported to the bank quarterly. The principal covenants relating to capital management are the earnings before interest and taxation (EBIT) fixed cover charge ratio, the consolidated debt to earnings before interest, taxation, depreciation and amortisation (EBITDA) and consolidated debt to capitalisation. There have been no breaches of these covenants or events of review for the current or prior period.

3 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using the Binomial model. The related assumptions are detailed in note 31. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Binomial formula taking into account the terms and conditions upon which the instruments were granted (see note 31).

Make good provisions

A provision has been made for the present value of anticipated costs of future restoration of leased store premises. The provision includes future cost estimates associated with dismantling and closure of stores. The calculation of this provision requires assumptions such as discount rates, store closure dates and lease terms. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised is periodically reviewed and updated based on the facts and circumstances available at the time. Changes for the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset (if applicable) and provision. The related carrying amounts are disclosed in note 20 and note 23.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience, lease terms (for leased equipment) and policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Critical judgements in applying the entity's accounting policies

Revenue recognition

Professional care plan revenue is recognised as sales revenue in the comprehensive income statement. Management judgement is required to determine the amount of service revenue that can be recognised based on the usage pattern of PCPs and general information obtained on the operation of service plans in other markets. Those direct and incremental bonuses associated with the sale of these plans are deferred and amortised in proportion to the revenue recognised. Management reviews trends in current and estimated future services provided under the plan to assess whether changes are required to the revenue and cost recognition rates used.

Due to management reviews conducted during the year, an adjustment to the revenue recognition pattern has been deemed necessary. As a result of this, an additional $1,131,000 has been recognised as revenue in the current financial year. Of this, $161,000 relates to the current financial year, and $970,000 relates to prior financial years.

Taxation and recovery of deferred tax assets

The Group is subject to income taxes in New Zealand and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Management judgement is required to determine the amount of deferred tax assets that can be recognised.

Impairment of non-financial assets other than goodwill and indefinite life intangibles

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include store performance, product and manufacturing performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

4 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 Directors 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 reports.

The Group operates in 4 geographical 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 sell goods and provide 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 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.

Segment Information

for the year ended 30 June 2015

	MHJ AUSTRALIA			MHJ NEW ZEALAND			MHJ CANADA			MHJ USA			GROUP		
	2015	**2014**		**2015**	**2014**		**2015**	**2014**		**2015**	**2014**		**2015**	**2014**	
	$'000	$'000	+/-%	$'000	$'000	+/-%	$'000	$'000	+/-%	**$'000**	$'000	+/-%	$'000	$'000	+/-%
Operating revenue															
Sales to customers	**294,442**	298,474	(1.4%)	**106,180**	99,496	6.7%	**81,348**	70,454	15.5%	**13,610**	10,899	24.9%	**495,580**	479,323	3.4%
Unallocated revenue													**7,790**	4,612	68.9%
Total operating revenue													**$ 503,370**	$ 483,935	4.0%
Segment results															
Operating surplus / (loss)	**45,933**	47,193	(2.7%)	**21,938**	20,083	9.2%	**6,326**	3,890	62.6%	**(2,342)**	(1,898)	(23.4%)	**71,855**	69,268	3.7%
Unallocated revenue less unallocated expenses													**(34,453)**	(32,493)	(6.0%)
Profit before income tax													**37,402**	36,775	1.7%
Income tax expense													**(9,648)**	(11,734)	17.8%
Profit for the year													**$ 27,754**	$ 25,041	10.8%
Segment assets	**110,040**	112,575	(2.3%)	**38,841**	44,273	(12.3%)	**62,581**	53,502	17.0%	**18,348**	13,275	38.2%	**229,810**	223,625	2.8%
Unallocated													121,203	116,193	4.3%
Total													**$ 351,013**	$ 339,818	3.3%
Segment liabilities	**65,239**	59,249	10.1%	**19,142**	18,326	4.5%	**14,896**	11,851	25.7%	**4,176**	2,962	41.0%	**103,453**	92,388	12.0%
Unallocated													**59,939**	66,145	(9.4%)
Total													**$ 163,392**	$ 158,533	3.1%
Segment acquisitions of property, plant & equipment and intangibles	**6,496**	6,865	(5.4%)	**3,308**	3,860	(14.3%)	**6,080**	6,999	(13.1%)	**2,015**	1,761	14.4%	**17,899**	19,485	(8.1%)
Unallocated													**4,216**	3,742	12.7%
Total													**$ 22,115**	$ 23,227	(4.8%)
Segment depreciation and amortisation expense	**6,559**	6,041	8.6%	**2,496**	2,037	22.5%	**2,963**	2,357	25.7%	**748**	531	40.9%	**12,766**	10,966	16.4%
Unallocated													**2,972**	2,104	41.3%
Total													**$ 15,738**	$ 13,070	20.4%

* Please note that 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.

5 Revenue

	2015 $'000	2014 $'000
From continuing operations:		
Sales revenue		
Revenue from sale of goods and repair services	**476,253**	462,808
Revenue from professional care plans	**25,208**	19,956
Interest and other revenue from in-house customer finance program	**1,860**	1,111
	503,321	483,875
Other revenue		
Interest income	**49**	60
	503,370	483,935

6 Other income

	2015 $'000	2014 $'000
Insurance recoveries	**137**	-
Net foreign exchange gains (Net foreign exchange losses in 2014)	**1,783**	-
Other income	**339**	764
	2,259	764

7 Expenses

	2015 $'000	2014 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	**3,499**	2,831
Furniture and fittings	**2,987**	2,556
Motor vehicles	**212**	221
Leasehold improvements	**5,826**	5,258
Display materials	**1,354**	981
Total depreciation	**13,878**	11,847
Amortisation		
Software	**1,860**	1,223
Total amortisation	**1,860**	1,223
Total depreciation and amortisation	**15,738**	13,070
Bank and interest charges	**3,508**	3,141
Interest expense - make good provision	**127**	(18)
Interest from tax pooling arrangement (see note 34).	**1,073**	2,313
Total finance costs	**4,708**	5,436

7 Expenses (continued)

	Group 2015 $'000	Group 2014 $'000
Rental expense relating to operating leases	**50,640**	47,287
Superannuation contributions	**8,462**	8,070
Net loss on disposal of property, plant and equipment	**204**	1,133
Impairment of property, plant and equipment	**159**	9
Net foreign exchange losses (Net foreign exchange gains in 2015)	**-**	351
Donations	**39**	27

Remuneration of auditors
During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity, its related practices and non-related audit firms:

	2015 $'000	2014 $'000
(a) Assurance services		
Ernst & Young Australian Firm		
Audit and review of financial reports	**337**	317
Grant Thornton New Zealand Firm		
Audit of ordinary shares register	**2**	2
Total remuneration for assurance services	**339**	319
(b) Advisory services		
Ernst & Young Australian firm		
Advisory fees	**5**	27
Total remuneration for advisory services	**5**	27
	344	346

8 Income tax expense

	2015 $'000	2014 $'000
(a) Income tax expense		
Current tax	**7,139**	7,789
Deferred tax	**1,532**	(1,136)
Over provided in prior years	**(24)**	(912)
ATO settlement payment	**-**	5,993
Derecognised tax losses	**1,001**	-
Income tax expense	**9,648**	11,734
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**37,402**	36,775
Tax at the New Zealand tax rate of 28%	**10,473**	10,297
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non deductible entertainment expenditure	**171**	103
Non deductible legal expenditure	**98**	122
Debt deduction denied	**28**	-
Share of partnership	**(3,601)**	(4,492)
Unrealised foreign exchange loss not included in accounting profit	**39**	(1,384)
Sundry items	**3**	109
	7,211	4,755
Difference in overseas tax rates	**325**	356
Over provided in prior years	**(24)**	(912)
ATO settlement payment	**-**	5,993
Tax losses not recognised	**2,136**	1,542
Income tax expense	**9,648**	11,734
(c) Tax losses		
Unused United States tax losses for which no deferred tax has been recognised	**10,451**	6,156
Potential tax benefit @ 40%	**4,181**	2,463
Unused New Zealand tax losses for which no deferred tax has been recognised	**4,330**	-
Potential tax benefit @ 28%	**1,212**	-

9 Current assets - Cash and cash equivalents

	2015 $'000	2014 $'000
Cash at bank and on hand	**6,797**	8,109
	6,797	8,109

(a) Cash at bank and on hand

Interest rates for the bank accounts have been between 0.00% and 4.00% during the year (2014: between 0.00% and 2.55%).

10 Current assets - Trade and other receivables

	2015 $'000	2014 $'000
Trade receivables	**4,917**	5,436
Provision for impaired receivables	**(455)**	(731)
	4,462	4,705
In-house customer finance	**11,881**	11,106
Provision for impaired receivables	**(751)**	(658)
	11,130	10,448
Prepayments	**3,192**	2,639
Deferred expenditure	**1,092**	1,252
Other receivables	**4,983**	6,099
	24,859	25,143

(a) Impaired trade receivables

Trade receivables from sales made to customers through third party credit providers are non-interest bearing and are generally on 0-30 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $452,000 (2014: $422,000) has been recognised by the Group. All trade receivables related to third party credit providers past 90 days have been impaired.

At 30 June 2015, the ageing analysis of trade receivables related to third party credit providers is as follows:

	2015 $'000	2014 $'000
0 - 30 days	**4,271**	4,050
31 - 60 days	**188**	392
61 - 90 days	**32**	137
91 + days	**426**	857
	4,917	5,436

Movements in the provision for trade receivables impairment loss were as follows:

	2015 $'000	2014 $'000
Opening balance	**731**	645
Amounts written off	**(452)**	(422)
Additional provisions recognised	**178**	499
Exchange differences	**(2)**	9
	455	731

(b) In-house customer finance

In October 2012, Michael Hill launched an in-house customer finance program in the Canadian and United States markets. The terms available to customers range from a revolving line of credit through to 18 months, although 12 to 18 months is the typical financing period, and interest bearing and non-interest bearing products are offered.

10 Current assets - Trade and other receivables (continued)

The receivables from the in-house customer finance program are comprised of a large number of transactions with no one customer representing a significant balance. The finance portfolio consists of contracts of similar characteristics that are evaluated collectively for impairment. The allowance is an estimate of the losses as of the balance date, and is calculated using such factors as delinquency and recovery rates.

The credit quality and ageing of these receivables is as follows:

	2015 $'000	2014 $'000
Performing:		
Current, aged 0 - 30 days	**11,564**	10,929
Past due, aged 31 - 90 days	**364**	255
Non performing:		
Past due, aged more than 90 days	**404**	208
	12,332	11,392

Ageing has been calculated with reference to payment due dates.

This has been disclosed as:		
Current receivables	**11,881**	11,106
Non-current receivables	**451**	286
	12,332	11,392

Movements in the provision for in-house customer finance receivables impairment loss were as follows:

	2015 $'000	2014 $'000
Opening balance	**675**	453
Amounts written off	**(1,407)**	(615)
Additional provisions recognised	**1,446**	869
Exchange differences	**66**	(32)
	780	675

This has been disclosed as:		
Current receivables	**751**	658
Non-current receivables	**29**	17
	780	675

Only trade receivables and in-house customer finance contain impaired assets. The remaining classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

(c) Other receivables

Other receivables relate to supplier rebates, security deposits and other sundry receivables.

10 Current assets - Trade and other receivables (continued)

(d) Effective interest rates

Other than in-house customer finance, all receivables are non-interest bearing. The majority of in-house customer finance receivables are also non-interest bearing.

11 Current assets - Inventories

	2015 $'000	2014 $'000
Raw materials	**7,128**	6,280
Finished goods	**172,827**	171,765
Packaging and other consumables	**2,277**	1,235
	182,232	179,280

All inventories are held at cost.

12 Current assets - Current tax receivables

	2015 $'000	2014 $'000
Income tax	**11,376**	61
	11,376	61

13 Current assets - Other current assets

	Consolidated	
	2015 $'000	2014 $'000
Tax pool deposits	**3,143**	-
	3,143	-

14 Non-current assets - Trade and other receivables

	2015 $'000	2014 $'000
In-house customer finance	**451**	286
Provision for impaired receivables	**(29)**	(17)
	422	269
Prepayments	**214**	211
	636	480

15 Non-current assets - Property, plant and equipment

	Plant and equipment $'000	Fixtures and fittings $'000	Motor vehicles $'000	Leasehold improvements $'000	Display materials $'000	Total $'000
At 1 July 2013						
Cost	22,867	20,445	954	53,772	8,223	106,261
Accumulated depreciation	(12,765)	(10,126)	(396)	(30,032)	(3,802)	(57,121)
Net book amount	10,102	10,319	558	23,740	4,421	49,140
Year ended 30 June 2014						
Opening net book amount	10,102	10,319	558	23,740	4,421	49,140
Exchange differences	37	96	16	(28)	8	129
Additions	2,828	3,135	140	11,561	2,023	19,687
Disposals	(212)	(291)	(46)	(688)	5	(1,232)
Reclassification to intangible assets	204	-	-	(672)	-	(468)
Depreciation charge	(2,831)	(2,556)	(221)	(5,258)	(981)	(11,847)
Impairment charge	(6)	(3)	-	-	-	(9)
Closing net book amount	10,122	10,700	447	28,655	5,476	55,400
At 30 June 2014						
Cost	24,587	21,092	1,000	55,665	10,076	112,420
Accumulated depreciation	(14,465)	(10,392)	(553)	(27,010)	(4,600)	(57,020)
Net book amount	10,122	10,700	447	28,655	5,476	55,400
Year ended 30 June 2015						
Opening net book amount	10,122	10,700	447	28,655	5,476	55,400
Exchange differences	264	139	3	1,083	182	1,671
Additions	5,696	5,631	363	5,917	2,583	20,190
Additions - make good asset	-	-	-	2,116	-	2,116
Disposals	(154)	(62)	(91)	(171)	(8)	(486)
Reclassification to intangible assets	(10)	1	-	-	-	(9)
Depreciation charge	(3,499)	(2,987)	(212)	(5,826)	(1,354)	(13,878)
Impairment charge	(29)	(23)	-	(107)	-	(159)
Closing net book amount	12,390	13,399	510	31,667	6,879	64,845
At 30 June 2015						
Cost	29,856	26,393	953	63,697	12,576	133,475
Accumulated depreciation	(17,466)	(12,994)	(443)	(32,030)	(5,697)	(68,630)
Net book amount	12,390	13,399	510	31,667	6,879	64,845

16 Non-current assets - Deferred tax assets

	2015	2014
	$'000	$'000
The balance comprises temporary differences attributable to:		
Doubtful debts	**298**	364
Fixed assets and intangibles	**2,664**	3,493
Intangible assets from intellectual property transfer	**33,873**	37,437
Deferred expenditure	**(932)**	(1,089)
Prepayments	**(53)**	(5)
Deferred service revenue	**4,408**	13,905
Unearned income	**769**	762
Employee benefits	**2,437**	2,728
Retirement benefit obligations	**692**	245
Provision for warranties and legal costs	**739**	652
Straight-line lease provision	**1,501**	1,339
Other provisions	**1,988**	1,456
Unrealised foreign exchange losses	**(3)**	(37)
Tax losses	**-**	1,074
Net deferred tax assets	**48,381**	62,324

Movements:		
Opening balance at 1 July	**62,324**	56,064
Credited / (charged) to the income statement (note 8)	**(1,532)**	1,136
Prior year adjustment - deferred service revenue	**(9,300)**	-
Prior year adjustment - other	**(41)**	(72)
Losses utilised	**(155)**	-
Losses recognised	**-**	152
Derecognised tax losses	**(1,001)**	-
Foreign exchange differences	**(1,914)**	5,044
Closing balance at 30 June	**48,381**	62,324
Expected settlement		
Within 12 months	**6,852**	11,702
In excess of 12 months	**41,529**	50,622
	48,381	62,324

17 Non-current assets - Intangible assets

	Patents, trademarks and other rights $'000	Computer software $'000	Total $'000
At 1 July 2013			
Cost	24	9,423	9,447
Accumulated amortisation	-	(5,815)	(5,815)
Net book amount	24	3,608	3,632
Year ended 30 June 2014			
Opening net book amount	24	3,608	3,632
Exchange differences	-	(1)	(1)
Additions	-	3,540	3,540
Disposals	-	(3)	(3)
Reclassification from property, plant and equipment	-	468	468
Amortisation charge*	-	(1,223)	(1,223)
Closing net book amount	24	6,389	6,413
At 30 June 2014			
Cost	24	13,206	13,230
Accumulated amortisation	-	(6,817)	(6,817)
Net book amount	24	6,389	6,413
Year ended 30 June 2015			
Opening net book amount	24	6,389	6,413
Exchange differences	1	4	5
Additions	54	1,871	1,925
Disposals	-	(1)	(1)
Reclassification from property, plant and equipment	-	9	9
Amortisation charge *	-	(1,860)	(1,860)
Closing net book amount	79	6,412	6,491
At 30 June 2015			
Cost	79	15,085	15,164
Accumulated amortisation	-	(8,673)	(8,673)
Net book amount	79	6,412	6,491

* Amortisation of $1,860,000 (2014: $1,223,000) is included in depreciation and amortisation expense in the statement of comprehensive income.

18 Non-current assets - Other non-current assets

	2015 $'000	2014 $'000
Deferred expenditure	**2,253**	2,608
	2,253	2,608

19 Current liabilities - Trade and other payables

	2015 $'000	2014 $'000
Trade payables	**25,334**	22,957
Annual leave liability	**7,354**	6,988
Accrued expenses	**5,772**	6,386
Other payables	**5,279**	5,703
	43,739	42,034

20 Current liabilities - Provisions

	2015 $'000	2014 $'000
Employee benefits - long service leave	**1,704**	1,584
Returns provision	**2,818**	2,519
Make good provision	**102**	132
	4,624	4,235

(a) Employee benefits - long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(b) Returns provision

Provision is made for the estimated sale returns for the Group's return policies, being 30 day change of mind, 12 month guarantee on the quality of workmanship and the 3 year watch guarantee. In addition, all Michael Hill watches are sold with a lifetime battery replacement guarantee. Management estimates the provision based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(c) Make good provision

The Group has an obligation to restore certain leasehold sites to their original condition upon store closure or relocation. This provision represents the present value of the expected future make good commitment. Amounts charged to the provision represent both the cost of make good costs incurred and the costs incurred which mitigate the final liability prior to the closure or relocation.

20 Current liabilities - Provisions (continued)

(d) Movements in provisions

Movements for the Group in each class of provision during the financial year are set out below:

	Employee benefits $'000	Returns provision $'000	Make good provision $'000	Total $'000
2015				
Current				
Carrying amount at the start of the year	1,584	2,519	132	4,235
Additional provisions recognised	448	2,825	(117)	3,156
Amounts incurred and charged	(325)	(2,518)	88	(2,755)
Exchange differences	(3)	(8)	(1)	(12)
Carrying amount at the end of the year	1,704	2,818	102	4,624

21 Current liabilities - Deferred revenue

	2015 $'000	2014 $'000
Deferred service revenue	**20,504**	23,674
Lease incentive income	**731**	560
Deferred interest free revenue	**281**	502
	21,516	24,736

22 Non-current liabilities - Borrowings

	2015 $'000	2014 $'000
Secured		
Bank loans	**45,116**	56,000
Total non-current borrowings	**45,116**	56,000

These advances, together with the bank overdraft, are secured by floating charges over all of the Group's assets.

(a) Financing arrangements

The Group’s objectives when managing capital are to ensure sufficient liquidity to support its financial obligations and execute the Group's operational and strategic plans. The Group continually assesses its capital structure and makes adjustments to it with reference to changes in economic conditions and risk characteristics associated with its underlying assets. Accordingly, the Group entered into an agreement with ANZ on 24 June 2015 that provides for a $110,000,000 multi option borrowing facility, the availability of which is adjusted throughout the year in line with business requirements. At balance date, $70,000,000 was available, and of that, $45,116,000 was utilised.

The Group also has access to various uncommitted credit facility lines serving working capital needs that, at balance date, totalled $1,932,000. No amounts were drawn under these credit facility lines as at balance date.

22 Non-current liabilities - Borrowings (continued)

(b) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

Exposures arise predominantly from liabilities bearing variable interest rates. To manage this exposure the Group has taken out interest rate swaps, as described in note 2(a)(ii).

The carrying amount of the fully drawn advance facility reflects fair value.

		Fixed interest rate				
	Floating interest rate	**Less than 6 months**	**6 - 12 months**	**Over 1 less than 5 years**	**Over 5 years**	**Total**
	$'000	$'000	$'000	$'000	$'000	$'000
2015						
Variable rate fully drawn advance facility	45,116	-	-	-	-	45,116
	45,116	-	-	-	-	45,116
Weighted average interest rate	2.84 %	- %	- %	- %	- %	
2014						
Variable rate fully drawn advance facility	56,000	-	-	-	-	56,000
	56,000	-	-	-	-	56,000
Weighted average interest rate	3.31 %	- %	- %	- %	- %	

The Group retains the discretion to maintain the required borrowing levels under the fully drawn advance facility until the borrowing facility terminates on 1 July 2019, so long as the facility limit has not been reached.

23 Non-current liabilities - Provisions

	2015 **$'000**	2014 $'000
Employee benefits - long service leave	**1,641**	1,381
Make good provision	**2,613**	359
	4,254	1,740

(a) Employee benefits - long service leave

The basis used to measure the liability for long service leave is set out in note 20(a).

(b) Make good provision

The basis used to calculate the make good provision is set out in note 20(c).

(c) Movements in provisions

Movements for the Group in each class of provision during the financial year are set out below:

	Employee benefits $'000	**Make good provision $'000**	**Total $'000**
2015			
Non-current			
Carrying amount at the start of the year	1,381	359	1,740
Additional provisions recognised	326	2,538	2,864
Amounts incurred and charged	(64)	(270)	(334)
Exchange differences	(2)	(14)	(16)
Carrying amount at the end of the year	1,641	2,613	4,254

24 Non-current liabilities - Deferred revenue

	2015 **$'000**	2014 $'000
Deferred service revenue	**41,805**	27,914
Lease incentive income	**2,318**	1,861
Deferred interest free revenue	**20**	13
	44,143	29,788

25 Contributed equity

	Parent		Parent	
	2015 Shares	2014 Shares	**2015 $'000**	2014 $'000
(a) Share capital				
Ordinary shares				
Fully paid (b)	**383,153,190**	383,153,190	**3,767**	3,702
Treasury stock held for Employee Share Scheme (c)	**(14,677)**	(111,584)	**(7)**	(51)
	383,138,513	383,041,606	**3,760**	3,651

(b) Fully paid ordinary share capital

	Parent		Parent	
	2015 Shares	2014 Shares	**2015 $'000**	2014 $'000
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 on exercise of options	**-**	-	**-**	12
Employee Share Scheme issue	**96,907**	92,062	**109**	113
Transfer from treasury stock	**(96,907)**	(92,062)	**(44)**	(40)
Closing balance of ordinary shares issued	**383,153,190**	383,153,190	**3,767**	3,702

(c) Treasury stock

Treasury shares are shares in Michael Hill International Limited that are held by Michael Hill Trustee Company Limited for the purpose of issuing shares under the Michael Hill International Employee Share Scheme (see note 31).

	Parent		Parent	
	2015 Shares	2014 Shares	**2015 $'000**	2014 $'000
Opening balance of treasury stock shares issued	**111,584**	203,646	**51**	91
Allocated to Employee Share Scheme	**(96,907)**	(92,062)	**(44)**	(40)
Closing balance of treasury stock shares issued	**14,677**	111,584	**7**	51

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(e) Employee Share Scheme

Information relating to the Michael Hill International Limited Employee Share Scheme, including details of shares issued under the scheme, is set out in note 31.

(f) Options

Information relating to the Michael Hill International Limited Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 31.

26 Reserves and retained profits

Nature and purpose of reserves

(i) Hedging reserve - cash flow hedges
The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge. The amounts are recognised in the profit and loss component of the statement of comprehensive income when the associated hedged transactions affect profit or loss, as described in note 1(n).

(ii) Options reserve
The share-based payments reserve is used to recognise the fair value of options issued but not exercised. Refer to note 31(a) for further details.

(iii) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(d).

27 Dividends

	2015 **$'000**	2014 $'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).	**13,765**	13,462
Interim dividend for the year ended 30 June 2015 of NZ 2.5c (2014 - NZ 2.5c) per fully paid share paid on 2 April 2015 (2014 - 1 April 2014).	**9,411**	8,874
	23,176	22,336
(b) Dividends not recognised at year end		
Since year end, the Directors have declared the payment of a final dividend of NZ 2.5c per fully paid ordinary share (2014 - NZ 4.0c). No imputation credits are attached to the final dividend. The aggregate amount of the proposed dividend expected to be paid on 2 October 2015 out of retained profits at 30 June 2015, but not recognised as a liability at year end, is:	**8,574**	14,285

(c) Imputed dividends

The dividends paid during the current financial period and corresponding previous financial period are not imputed.

Imputation credits available for subsequent financial years based on a 28% tax rate for the Group are NZ$2,775k (2014: NZ$2,191k).

The above amounts represent the balance of the imputation account as at the end of the financial year, adjusted for:

(a) imputation credits that will arise from the payment of the amount of the provision for income tax;
(b) imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The Group amounts include imputation credits that would be available to the Parent Entity if distributable profits of subsidiaries were paid as dividends.

There will be no impact on the imputation account of the dividend recommended by the Directors since year end.

28 Earnings per share

	2015 Cents	2014 Cents
(a) Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company	**7.24**	6.54
(b) Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company	**7.22**	6.43

(c) Reconciliation of earnings used in calculating earnings per share

	2015 $'000	2014 $'000
Basic earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	**27,754**	25,041
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	**27,754**	25,041

(d) Weighted average number of shares used as the denominator

	2015 Number	2014 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**383,117,273**	383,003,446
Adjustments for calculation of diluted earnings per share:		
Options	**1,300,000**	6,200,000
Treasury stock	**14,677**	111,584
Weighted average number of ordinary shares for diluted earnings per share	**384,431,950**	389,315,030

(e) Information concerning the classification of securities

(i) Options
Options granted to employees under the Michael Hill International Limited Employee Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 31.

(ii) Treasury Stock
Treasury stock held under the Michael Hill International Limited Employee Share Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. Treasury stock has not been included in the determination of basic earnings per share. Details relating to treasury stock are set out in note 25.

29 Related party transactions

(a) Directors

The names of persons who were Directors of the Company at any time during the financial year are as follows: Sir Michael Hill, M R Parsell, L W Peters, G J Gwynne, G W Smith, A C Hill, E J Hill, R I Fyfe.

(b) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2015 and 2014 is set out below. The key management personnel are all the Directors of the Company and the Group Executive team responsible for the strategic direction and management of the Group.

	Short-term benefits $'000	Post-employment benefits $'000	Share-based payments $'000	Total $'000
2015	**5,283**	**433**	**152**	**5,868**
2014	5,457	531	754	6,742

(c) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Employee Share Scheme

Key management personnel can subscribe in cash for ordinary shares via the Michael Hill International Limited Employee Share Scheme on the same terms and conditions that apply to other employees.

(d) Subsidiaries

The ultimate parent and controlling entity of the Group is Michael Hill International Limited. Interests in subsidiaries are set out in note 30.

(e) Transactions with other related parties

The following transactions occurred with related parties other than key management personnel or entities related to them:

	2015 $'000	2014 $'000
Services rendered for typing and editing the annual and half year reports by a related party of board members	**12**	9
Other transactions		
Annual sponsorship of the New Zealand PGA	**215**	90
Annual sponsorship of the Michael Hill Violin Charitable Trust	**59**	54

All transactions with related parties were in the normal course of business and provided on commercial terms.

30 Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding**	
			2015 %	2014 %
Michael Hill Jeweller Limited	New Zealand	Ordinary	**100**	100
Michael Hill Trustee Company Limited	New Zealand	Ordinary	**100**	100
Michael Hill Finance (NZ) Limited	New Zealand	Ordinary	**100**	100
Michael Hill Franchise Holdings Limited	New Zealand	Ordinary	**100**	100
MHJ (US) Limited	New Zealand	Ordinary	**100**	100
Emma & Roe NZ Limited	New Zealand	Ordinary	**100**	100
Michael Hill Online Holdings Limited	New Zealand	Ordinary	**100**	100
Michael Hill Jeweller (Australia) Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Wholesale Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Manufacturing Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Franchise Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Franchise Services Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Finance (Limited Partnership)	Australia	-	**100**	100
Michael Hill Group Services Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Charms Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Online Pty Limited	Australia	Ordinary	**100**	100
Emma & Roe Pty Limited	Australia	Ordinary	**100**	100
Emma & Roe Online Pty Limited	Australia	Ordinary	**100**	100
Michael Hill Jeweller (Canada) Limited	Canada	Ordinary	**100**	100
Michael Hill LLC	United States	Ordinary	**100**	100

31 Share-based payments

(a) Employee Option Plan

Options are granted from time to time at the discretion of Directors to Senior Executives within the Group. Motions to issue options to related parties of Michael Hill International Limited are subject to the approval of shareholders at the Annual Meeting in accordance with the Company's constitution.

Options are granted under the plan for no consideration. Options are granted for a ten year period and are exercisable at any time during the final five years.

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of the options granted is set at 30% above the weighted average price at which the Company's shares are traded on the New Zealand Stock Exchange for the calendar month following the announcement by the Group to the New Zealand Stock Exchange of its annual results.

Set out below are summaries of options granted under the plans:

31 Share-based payments (continued)

	2015 Weighted average exercise price in NZ$ per share	**2015 Number of options**	2014 Weighted average exercise price in NZ$ per share	2014 Number of options
Outstanding at the beginning of the year	**1.48**	**12,750,000**	1.19	7,250,000
Granted during the year	**1.63**	**400,000**	1.82	5,900,000
Forfeited during the year	**1.54**	**(1,000,000)**	1.08	(300,000)
Exercised during the year	**-**	**-**	1.16	(100,000)
Outstanding at the end of the year	**1.48**	**12,150,000**	1.48	12,750,000

Share options outstanding at the end of the year have the following expiry date and exercise prices:

	Exercise price in NZ$ per share	**2015 Number of options**	2014 Number of options
Expiry Date			
30 September 2017	**1.25**	**3,750,000**	4,250,000
30 September 2019	**0.94**	**650,000**	650,000
30 September 2020	**0.88**	**650,000**	650,000
30 September 2021	**1.16**	**650,000**	650,000
30 September 2022	**1.41**	**650,000**	650,000
30 September 2023	**1.82**	**5,400,000**	5,900,000
30 September 2024	**1.63**	**400,000**	-
		12,150,000	12,750,000

The weighted average remaining contractual life of share options outstanding at the end of the period was 5.9 years (2014: 6.7 years).

The range of exercise prices for options outstanding at the end of the year was NZ$0.88 - NZ$1.82. Refer to the table above for detailed information on each issue.

Option pricing model

The fair value at grant date for the options issued during the 2015 financial year were independently determined using a Binomial option pricing model, which is an iterative model for options that can be exercised at times prior to expiry. The model takes into account the grant date, exercise price, the expected life, the expiry date, the share price at grant date, expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The expected life assumes the option is exercised at the mid-point of the exercise period, and reflects the ability to exercise early and the non-transferability of the option.

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

31 Share-based payments (continued)

The following table lists the inputs to the models used for the options issued during the years ended 30 June 2015 and 30 June 2014:

	June 2015 10 November 2014	June 2014 18 September 2013	June 2014 29 November 2013
Number of options	400,000	650,000	5,250,000
Required return (%)	5.60	5.60	5.60
Expected volatility (%)	25	25	25
Risk - free interest rate (%)	4.78	4.80	4.80
Expected life of option (years)	7.5	7.5	7.5
Option exercise price (NZ$)	1.63	1.82	1.82
Share price at grant date (NZ$)	1.46	1.47	1.46

(b) Employee Share Scheme

The Michael Hill International Limited Employee Share Scheme was established by Michael Hill International Limited in 2001 to assist employees to become shareholders of the Company. Employees are able to purchase shares in the Company at a 10% discount to the average market price over the two weeks prior to the invitation to purchase. 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.

	2015 Number	2014 Number
The plan held the following ordinary shares at the end of the year:		
Shares issued to participating employees (fully paid)	**96,907**	92,062
Not yet allocated to employees	**14,677**	111,584
	111,584	203,646

During the year, 96,907 (2014: 92,062) shares were issued to the Michael Hill Employee Share Scheme at an average price of NZ$1.25 (2014 - NZ$1.39).

Michael Hill International Limited acquired no shares through on-market purchases on the New Zealand Stock Exchange during the year that related to the Employee Share Scheme.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefits expense were as follows:

	2015 $'000	2014 $'000
Options issued under employee option plan	**25**	718
Shares issued under Employee Share Scheme	**11**	11
	36	729

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

	2015 $'000	2014 $'000
Profit for the year	**27,754**	25,041
Depreciation	**13,878**	11,847
Amortisation	**1,860**	1,223
Non-cash employee benefits expense - share-based payments	**38**	729
Other non-cash expenses	**-**	(9)
Net loss on sale of non-current assets	**204**	1,133
Deferred taxation	**12,343**	(3,123)
Net exchange differences	**(1,732)**	188
Decrease / (increase) in trade and other receivables	**1,306**	(6,156)
Decrease / (increase) in inventories	**136**	(23,818)
Decrease / (increase) in other non current assets	**380**	(601)
(Increase) in other non current assets	**(3,248)**	-
(Decrease) in tax payables	**(11,279)**	(2,731)
Increase / (decrease) in trade and other payables	**1,500**	(2,437)
Increase in deferred revenue	**10,731**	12,970
Increase in provisions	**695**	433
Net cash inflow from operating activities	**54,566**	14,689

33 Commitments

Operating leases

The Group leases all shops and in addition, various offices and warehouses under non-cancellable operating leases expiring within various periods of up to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

The Group also leases various plant and machinery under cancellable operating leases. The Group is required to give six months notice for termination of these leases.

	2015 $'000	2014 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**41,279**	35,262
Later than one year but not later than five years	**99,239**	98,338
Later than five years	**20,597**	20,347
	161,115	153,947

34 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities in respect of guarantees to bankers and other financial institutions in respect of overdraft facilities and fixed assets at 30 June 2015 of $457,000 (30 June 2014 - $398,000).

In respect of previous financial years, the Group has disclosed contingent liabilities arising from disputes with both the New Zealand Inland Revenue (IRD) and the Australian Taxation Office (ATO). The issues with the ATO were resolved during the 2014 year and are reflected in the comparative financial statements. See note 8 for further details.

34 Contingencies (continued)

The issues with the IRD remain unresolved. 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, 2013 and 2014 financial years.

The aggregate amount of tax deductions claimed by the Group in respect of these years and which is in dispute is NZ$35,077,983. The tax effect of deductions for the 2015 year is NZ$3,944,000. 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 and has commenced litigation proceedings in the High Court of New Zealand with a view to this matter being brought to a conclusion, rather than remaining unresolved.

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

(b) Contingent assets

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

35 Events occurring after the reporting period

There were no significant events occurring after 30 June 2015.

36 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the Australian wholly-owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and directors' report in Australia.

The subsidiaries subject to the deed are: Michael Hill Jeweller Limited, Michael Hill Finance (NZ) Limited, Michael Hill Franchise Holdings Limited, Michael Hill Jeweller (Australia) Pty Limited, Michael Hill Wholesale Pty Limited, Michael Hill Manufacturing Pty Limited, Michael Hill Franchise Pty Limited, Michael Hill Franchise Services Pty Limited, Michael Hill Group Services Pty Limited.

Emma & Roe NZ Limited, Michael Hill Online Holdings Limited, Michael Hill Charms Pty Ltd, Emma & Roe Pty Ltd, Michael Hill Online Pty Ltd and Emma & Roe Online Pty Ltd became parties to the deed above by virtue of a Deed of Assumption on 11 June 2015.

The Class Order requires the Parent Company and each of the subsidiaries to enter into a Deed of Cross Guarantee. The effect of the deed is that the Company guarantees each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Corporations Act 2001, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The above companies represent a Closed Group for the purposes of the Class Order and, as there are no other parties to the Deed of Cross Guarantee that are controlled by Michael Hill International Limited, they also represent the Extended Closed Group.

36 Deed of cross guarantee (continued)

Statement of comprehensive income

Set out below are the consolidated statement of comprehensive income and statement of changes in equity of the Closed Group consisting of Michael Hill International Limited and the subsidiaries listed above.

	2015 $'000	2014 $'000
Revenue from sale of goods and services	**424,064**	421,781
Sales to Group companies not in Closed Group	**33,707**	43,083
Other income	**457**	739
Cost of goods sold	**(177,894)**	(184,071)
Employee benefits expense	**(110,301)**	(109,593)
Occupancy costs	**(40,738)**	(38,826)
Marketing expenses	**(23,938)**	(19,742)
Selling expenses	**(20,452)**	(20,937)
Depreciation and amortisation expense	**(11,997)**	(10,170)
Loss on disposal of property, plant and equipment	**(83)**	(633)
Other expenses	**(15,796)**	(18,066)
Finance costs	**(5,077)**	(5,991)
Profit before income tax	**51,952**	57,574
Income tax expense	**(13,129)**	(16,995)
Profit for the year	**38,823**	40,579
Other comprehensive income		
Currency translation differences arising during the year	**(7,855)**	14,597
Total comprehensive income for the year	**30,968**	55,176

Statement of changes in equity

	2015 $'000	2014 $'000
Balance at 1 July	**466,503**	391,181
Total comprehensive income	**30,968**	55,176
Issue of share capital - exercise of options	**-**	102
Issue of preference share capital	**-**	59,000
Employee shares issued	**109**	113
Option expense through share based payments reserve	**25**	718
Dividends paid	**(36,421)**	(39,787)
Balance at 30 June	**461,184**	466,503

36 Deed of cross guarantee (continued)

Statement of financial position

Set out below are the statement of financial position as at 30 June for the Closed Group consisting of Michael Hill International Limited and the subsidiaries listed above.

	2015 $'000	2014 $'000
Current assets		
Cash and cash equivalents	**2,060**	3,360
Trade and other receivables	**10,644**	9,879
Inventories	**134,767**	138,011
Loans to related parties	**103,045**	161,542
Current tax receivables	**11,060**	61
Other current assets	**3,143**	-
Total current assets	**264,719**	312,853
Non-current assets		
Trade and other receivables	**87**	13
Property, plant and equipment	**39,928**	36,670
Deferred tax assets	**45,192**	59,502
Intangible assets	**6,429**	6,368
Investments in subsidiaries	**200,565**	132,764
Other non-current assets	**1,895**	2,278
Total non-current assets	**294,096**	237,595
Total assets	**558,815**	550,448
Current liabilities		
Trade and other payables	**36,387**	33,265
Provisions	**4,232**	3,807
Deferred revenue	**17,175**	19,961
Total current liabilities	**57,794**	57,033
Non-current liabilities		
Provisions	**4,255**	1,765
Deferred revenue	**35,582**	25,147
Total non-current liabilities	**39,837**	26,912
Total liabilities	**97,631**	83,945
Net assets	**461,184**	466,503
Equity		
Contributed equity	**302,749**	302,749
Reserves	**(2,870)**	5,014
Retained profits	**161,305**	158,740
Total equity	**461,184**	466,503

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Independent Auditor's Report to the Shareholders of Michael Hill International Limited

Report on the Financial Statements

We have audited the group financial statements of Michael Hill International Limited and its subsidiaries ("the Group") on pages 1 to 43, which comprise the statement of financial position of the Group as at 30 June 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended of the Group, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's shareholders in accordance with section 461G(1) of the Financial Markets Conduct Act 2013. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an 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 company and the company's shareholders, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). These auditing standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we have considered the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interest in, the Group. We provide advisory advice to the Group. We have no other relationship with, or interest in, the Group.

Partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

Opinion

In our opinion, the financial statements on pages 1 to 43:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- present fairly, in all material respects, the financial position of the Group as at 30 June 2015 and the financial performance and cash flows of the Group for the period then ended.

Ernst & Young

Ernst & Young
13 August 2015
Brisbane