michael hill
INTERNATIONAL LIMITED

HALF YEAR REPORT TO 31 DECEMBER 2012

CONTENTS

Our overall strategic goal is to grow shareholder wealth over time through our philosophy of controlled profitable growth.

Company profile: Michael Hill International Limited owns the brand "Michael Hill" and operates a retail jewellery chain of 263 stores in Australia, New Zealand, Canada and the United States as at 31 December 2012.

The Company had its origins in 1979 when Michael and Christine Hill opened their first store in the New Zealand town of Whangarei, some 160 kilometres north of Auckland.

A unique retail jewellery formula that included dramatically different store designs, a product range devoted exclusively to jewellery and high impact advertising, elevated the Company to national prominence. The Company listed on the New Zealand Stock Exchange in 1987, the same year the Group expanded into Australia.

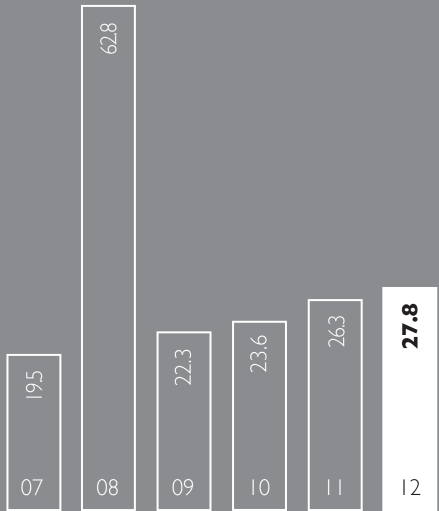
In 2002, the Group expanded into Canada, opening its first stores in Vancouver. We now have a presence in British Columbia, Alberta, Manitoba, Saskatchewan and Ontario.

In September 2008, the Group entered the United States market.

As at 31 December 2012, the Group has 52 stores in New Zealand, 160 in Australia, 42 in Canada and 9 stores in Chicago, USA. It employs over 2,200 permanent employees who are involved in retail sales, manufacturing and administration. It has approximately 3,500 shareholders and is proud of its consistently high returns to shareholders.

HIGHLIGHTS OF THE HALF YEAR

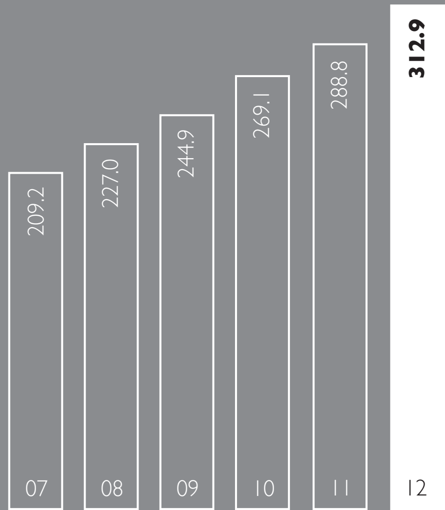
- Operating revenue of $312.866m up 8.3% on same period last year
- Same store sales up 2.3% on same period last year
- EBIT of $35.970m up 3.4% on same period last year
- Net profit before tax of $34.210m up 5.8% on same period last year
- Net profit after tax of $27.839m up 5.9% on same period last year
- Revenue collected from professional care plans of $18.063m for the period
- Net debt of $20.688m at 31 December 2012
- Operating cash flow of $28.114m
- 12 new stores opened and 1 closed during the period
- Total of 263 stores open at 31 December 2012
- Interim dividend of 2.5 cents per share up 25.0%



Net profit after tax up 5.9%

$ millions to 31 December

*Note that the 2008 Group profit after tax contained a deferred tax credit of NZ$50.197m



Group revenue up 8.3%

$ millions to 31 December

KEY FACTS for the six months ended 31 December 2012

	31 Dec 12	31 Dec 11	±%
Trading results ($000's)			
Group revenue	**312,866**	288,846	8.3%
Earnings before interest and tax	**35,970**	34,775	3.4%
Group profit after tax	**27,839**	26,297	5.9%
Net cash from operating activities	**28,114**	46,800	-39.9%
Financial position at year end ($000's)			
Contributed equity 382,849,544 ordinary shares	**4,162**	4,083	1.9%
Total equity	**208,336**	194,745	7.0%
Total assets	**372,953**	346,357	7.7%
Net debt	**20,688**	10,728	92.8%
Number of stores 31 December			
New Zealand	**52**	52	
Australia	**160**	149	
Canada	**42**	35	
United States	**9**	9	
Total	**263**	245	
Distribution to shareholders			
Interim dividend per ordinary share (¢)	**2.5**	2.0	
Key measures			
Share price 31 December	**$1.23**	$0.88	
Basic earnings per share (¢)	**7.27**	6.87	
Interest expense cover (times)	**20.4**	14.3	
Equity ratio	**55.9%**	56.2%	
Current ratio	**2.6:1**	2.8:1	

FINANCIAL CALENDAR

Dividends Payable:
Interim - April,
Final - October

Financial Results Announced:
Half Year - February,
Annual - August

DIRECTORS' REPORT

Profit Announcement

Michael Hill International Limited today announced an after tax profit of $27.839m for the six months ended 31 December 2012, up 5.9% on the corresponding period last year.

New Zealand Retail Operations

The New Zealand retail segment revenue increased by 3.6% to $63.117m for the six months, with an operating surplus of $12.945m, an increase of 6.2% on the corresponding period last year.

Same store sales during the twelve months increased by 3.0% (9.2% last year).

The operating surplus as a percentage of revenue increased to 20.5% (20.0% last year).

One store closed in New Zealand during the period at Fashion Island (Papamoa), giving a total of 52 stores operating in New Zealand as at 31 December 2012.

Australian Retail Operations

The Australian retail segment increased its revenue by 10.6% to AU$162.712m for the six months with an operating surplus of AU$27.986m, compared to AU$24.363m for the previous corresponding period, an increase of 14.9%.

Same store sales in local currency increased 3.8% for the six months (1.5% decrease last year).

The operating surplus as a percentage of revenue was 17.2% (16.6% last year).

Seven new stores were opened in Australia during the period, as follows:

- Goulburn, New South Wales
- Melbourne CBD, Victoria
- Mt Gambier, South Australia
- Parramatta, New South Wales
- Queen's Plaza Brisbane CBD, Queensland
- Shepparton, Victoria
- Singleton, New South Wales

No stores were closed during the period, giving a total of 160 stores operating in Australia as at 31 December 2012.

Canadian Retail Operations

The Canadian retail segment increased its revenue by 21.5% for the six months to CA$29.463m and there was an operating surplus of CA$1.555m, up 31.7% on CA$1.181m for the previous corresponding period.

Same stores sales in local currency increased 3.8% for the six months (5.2% last year).

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

- Cambridge, Ontario
- Georgian Mall, Ontario
- Lambton Mall, Ontario
- Markville, Ontario
- St Laurent, Ontario

No stores were closed during the period, giving a total of 42 stores operating in Canada as at 31 December 2012.

US Retail Operations

The US retail segment increased its revenue by 4.2% for the six months to US$5.493m for the six months and there was an operating loss of US$1.266m for the same period (US$1.431m loss last year).

Same stores sales in local currency increased 4.2% for the six months.

The Board is satisfied with the progress of the US operation over the past six months but acknowledges there is still a long way to go before the business is proven up in the US market. Focus remains on improving both the top line sales and the margins in order to grow the bottom line of the nine stores over the coming twelve months.

There were nine stores open as at 31 December 2012.

Professional Care Plan (PCP)

PCP sales for the half-year were $18.063m. An amount of $5.060m has been included as revenue in the segment figures stated above from the current and prior periods.

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

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

	Last Year	This Year
PCP sales collected for the half-year	$14,411,408	$18,063,228
PCP revenue brought to income for the half-year	$1,466,312	$5,059,516
Deferred revenue held on balance sheet	$24,337,672	$44,468,278

DIRECTORS' REPORT cont.

Outstanding Tax Issues from Group Restructuring in 2008

It will be recalled that the Group currently has two unresolved tax matters relating to the way the Group valued and financed the sale of intellectual property from one of our New Zealand companies to one of our Australian companies.

In New Zealand, the Inland Revenue (IR) has questioned the manner in which the transaction was financed. In Australia, the Australian Taxation Office (ATO) has queried the value at which the intellectual property was transferred. The Group does not agree with the positions advanced by either the IR or ATO and believes the tax treatment and values it has adopted are correct. Discussions continue with both the IR and ATO within their dispute process frameworks, but it remains unclear when final resolution will be achieved in respect of either matter.

In New Zealand, the amount in dispute is $24,636,000, being the tax effect of deductions claimed by the New Zealand Group from the date of the sale through to 30 June 2012. The tax effect of deductions for the December 2012 half-year is $3,469,000. In the event any tax liability was payable, the Group would also incur an interest expense.

In respect of Australia, the value at which the intellectual property was transferred was originally determined by reference to an independent valuation carried out by an internationally recognised firm and a deferred tax asset was raised in 2009 based on that valuation. The deferred tax asset balance at 31 December 2012 was $41,591,000 as a result of depreciation of components of the intellectual property and a previously announced adjustment in value. The ATO has signalled that it has issues with aspects of that valuation which, if correct, would reduce the amount of depreciation able to be deducted by the Group. As noted, the Group does not accept the ATO's position and believes the ATO's views are based on a number of factual, legal and technical valuation errors.

Both matters are capable of being resolved by agreement, but if the Group is unable to find common ground with either the IR or ATO then further formal legal processes may be needed to achieve resolution. As is the case with almost all legal processes there is inherent uncertainty as to the outcome and the Group does not believe that the outcome of either process can be predicted or the range of possible implications quantified. The board does not consider that either of the above ongoing tax matters require a provision in the Group's financial statements for the six months ended 31 December 2012.

Dividend

The Directors are pleased to announce an interim dividend of 2.5¢ per share (2011 – 2.0¢), with no imputation credits attached for New Zealand shareholders and full franking credits for Australian shareholders. The dividend will be paid on Wednesday, 3 April 2013 with the record date being Monday, 25 March 2013.

Due to the internal restructuring of the Group in December 2008, the Company is unlikely to be in a position to impute dividends for New Zealand shareholders for some years, however this will depend on the performance of the segment in the coming years and also on the level of dividend to be paid in future periods.

Whilst the 2012-13 interim dividend is fully franked to Australian resident shareholders, it is possible that future dividends will only be partially franked due to the likelihood of future dividend payout exceeding the level of tax liability in Australia. However, this position can change over time depending on a number of variables and the Company will keep the market informed each time a dividend is declared.

Cash Flows / Balance Sheets

The Group has reported net operating cash flows of $28.114m for the six months, compared to $46.800m for the previous year.

The surplus from operations is a result of:

Profit excluding non-cash items	$34.935m
Increase in trade and other receivables	($10.324)m
Increase in inventory levels	($28.035)m
Increase in trade and other payables	$20.107m
Increase in deferred revenues from professional care plan	$12.902m
Other miscellaneous items	($1.471)m
Net cash inflow from operations surplus for the half-year	$28.114m

The Group's balance sheet continues to be sound with an equity ratio of 55.9% as at 31 December 2012 (56.2% in 2011) and a working capital ratio of 2.6:1 (2.8:1 in 2011).

Summary

Trading for the six months was a story of two quarters with a strong first quarter being followed by a slowdown in the second quarter. All countries struggled to make gains on the previous year's sales numbers during the key December quarter however "same store" growth was achieved in all markets during the six months which is pleasing. As mentioned in our August 2012 Chairman's Statement, additional resources were placed into our key Australian market in mid-2012 and this has started to have a positive impact on sales in this key market.

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

Michael Hill

Sir Michael Hill, Chairman
14/02/2013

ERNST & YOUNG

111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Telephone +61 7 3011 3333
Facsimile +61 7 3011 3100
www.ey.com/au

Review report to the Shareholders of Michael Hill International Limited

We have reviewed the interim financial statements on pages 1 to 9. The interim financial statements provide information about the past financial performance of the Group and its financial position as at 31 December 2012. This information is stated in accordance with the accounting policies set out in the Group's annual financial statements dated 16 August 2012.

This report is made solely to the Group's shareholders, as a body, in accordance with Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. Our review has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's shareholders as a body, for our review work, for this report, or for our findings.

Directors' Responsibilities

The Directors are responsible for the preparation of interim financial statements which comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements and which present fairly the financial position of the Group as at 31 December 2012 and the results of its operations and cash flows for the six month period ended on that date.

Reviewer's Responsibilities

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

Basis of Statement

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

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

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

Statement of Review Findings

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial statements, set out on pages 13 to 23, do not fairly present the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the six month period ended on that date in accordance with generally accepted accounting practice in New Zealand as it relates to interim financial statements.

Our review was completed on 14 February 2013 and our findings are expressed as at that date.

Ernst & Young

Ernst & Young
Chartered Accountants
Brisbane

CONDENSED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2012

	31 Dec 12 $000	31 Dec 11 $000
Revenue from continuing operations	**312,866**	288,846
Other income	**182**	197
Cost of goods sold	**(112,965)**	(109,483)
Employee benefits expense	**(76,389)**	(67,060)
Occupancy costs	**(25,820)**	(23,257)
Selling expenses	**(18,532)**	(16,862)
Marketing expenses	**(17,501)**	(17,560)
Depreciation and amortisation expense	**(6,411)**	(6,093)
Loss on disposal of property, plant and equipment	**(34)**	(423)
Other expenses	**(19,262)**	(13,474)
Finance costs	**(1,924)**	(2,494)
Profit before income tax	**34,210**	32,337
Income tax expense	**(6,371)**	(6,040)
Profit for the half-year	**27,839**	26,297
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Currency translation differences arising during the half-year	**(626)**	1,257
Total comprehensive income for the half-year	**27,213**	27,554
Total comprehensive income for the half-year is attributable to:		
Equity holders of Michael Hill International Limited	**27,213**	27,554
Earnings per share attributable to the ordinary equity holders of the Company during the half-year attributable to continuing operations:		
Basic earnings per share	**7.27¢**	6.87¢
Diluted earnings per share	**7.23¢**	6.85¢

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

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

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

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

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2012

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

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

CONDENSED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2012

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

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

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of significant accounting policies

The interim financial statements for the half-year ended 31 December 2012 have been prepared in accordance with NZ IAS 34 interim financial reporting and IAS 34 interim financial reporting.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2012. The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Statutory base

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

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

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

NOTES TO THE FINANCIAL STATEMENTS cont.

2. Segment information

Identification and description of segments

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

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

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

Types of products and services

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

Major customers

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

Accounting policies and inter-segment transactions

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

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

Unallocated expenses include all expenses that do not relate directly to the relevant segment and include: manufacturing activities, warehouse and distribution, general corporate expenses, interest and company tax. Inter-segment pricing is at arm's length or market value.

	MHJ NEW ZEALAND		
	2012	2011	
	$000	$000	± %
Operating revenue			
Sales to customers	**63,117**	60,908	3.6%
Unallocated revenue			
Total operating revenue			
Segment results			
Operating surplus / (loss)	**12,945**	12,192	6.2%
Unallocated revenue less unallocated expenses			
Profit before income tax			
Income tax expense			
Profit for the year			
Segment assets	**51,830**	52,016	(0.4%)
Unallocated			
Total			
Segment liabilities	**19,488**	15,647	24.5%
Unallocated			
Total			
Segment acquisitions of property, plant & equipment and intangibles	**1,222**	1,525	(19.9%)
Unallocated			
Total			
Segment depreciation & amortisation expense	**985**	931	5.8%
Unallocated			
Total			

MHJ AUSTRALIA			MHJ CANADA			MHJ USA			GROUP		
2012	2011		**2012**	2011		**2012**	2011		**2012**	2011	
$000	$000	± %	**$000**	$000	± %	**$000**	$000	± %	**$000**	$000	± %
206,431	189,550	8.9%	**36,184**	30,354	19.2%	**6,703**	6,634	1.0%	**312,435**	287,446	8.7%
									431	1,400	(69.2%)
									312,866	288,846	8.3%
35,404	31,587	12.1%	**1,856**	1,524	21.8%	**(1,555)**	(1,781)	12.7%	**48,650**	43,522	11.8%
									(14,440)	(11,185)	(29.1%)
									34,210	32,337	5.8%
									(6,371)	(6,040)	(5.5%)
									27,839	26,297	5.9%
146,858	129,386	13.5%	**45,905**	39,335	16.7%	**13,505**	13,995	(3.5%)	**258,098**	234,732	10.0%
									114,855	111,625	2.9%
									372,953	346,357	7.7%
66,660	50,196	32.8%	**12,963**	9,481	36.7%	**3,112**	2,542	22.4%	**102,223**	77,866	31.3%
									62,394	73,746	(15.4%)
									164,617	151,612	8.6%
9,287	5,676	63.6%	**2,686**	1,068	151.5%	**153**	134	14.2%	**13,348**	8,403	58.8%
									1,355	705	92.2%
									14,703	9,108	61.4%
3,324	3,201	3.8%	**981**	817	20.1%	**287**	260	10.4%	**5,577**	5,209	7.1%
									834	884	(5.7%)
									6,411	6,093	5.2%

3. Property, plant and equipment

Acquisitions and disposals

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

4. Contributed equity

	31 Dec 12 Shares	30 June 12 Shares	**31 Dec 12 $000**	30 June 12 $000
Share capital				
Ordinary shares				
Fully paid	**383,053,190**	383,053,190	**4,263**	4,221
Treasury stock held for employee share scheme	**(203,646)**	(277,604)	**(101)**	(138)
	382,849,544	382,775,586	**4,162**	4,083
Opening balance of ordinary shares issued	**383,053,190**	383,053,190	**4,221**	4,177
Issues of ordinary shares during the year				
Employee share scheme issue	**73,958**	111,113	**79**	100
Transfer from treasury stock	**(73,958)**	(111,113)	**(37)**	(56)
Closing balance of ordinary shares issued	**383,053,190**	383,053,190	**4,263**	4,221

(a) Employee share scheme

During the half-year, 73,958 shares were issued to the Michael Hill International Limited Employee Share Scheme at an average price of $0.96. The shares will be held by a Trustee for a one year period during which time any dividends derived will be paid to the employee.

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

(b) Options

The Board has resolved to issue 750,000 share options during the 2013 financial year (including 400,000 share options to Mike Parsell in his capacity as CEO), to subscribe for ordinary shares in the Company to senior executives. The options have an exercise price of $1.41, which was 30% above the volume weighted average market price of the Company's ordinary shares in the 20 business days following the announcement to the New Zealand Stock Exchange on 17 August 2012 of the Company's results for the year to 30 June 2012.

5. Dividends

	31 Dec 12 $000	31 Dec 11 $000
(a) Ordinary shares		
Final dividend for the year ended 30 June 2012 of 3.5 cents (2011 - 3.0 cents) per fully paid share paid on 5 October 2012 (2011 - 10 October 2011)	**13,400**	11,483
(b) Dividends not recognised at the end of the half-year		
In addition to the above dividends, since the end of the half-year the Directors have recommended the payment of an interim dividend of 2.5 cents per fully paid ordinary share (2011 - 2.0 cents). The aggregate amount of the proposed dividend expected to be paid on 3 April 2013 out of retained profits at 31 December 2012, but not recognised as a liability at the end of the half-year, is	**9,571**	7,655

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

6. Contingencies

(a) Contingent liabilities

Guarantees

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

Tax matters

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

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

No material losses are anticipated in respect of any of the above contingent liabilities. The Group has no other material contingent liabilities as at balance date.

(b) Contingent assets

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

7. Related party transactions

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

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

8. Events occurring after the reporting period

There were no significant events ocurring after 31 December 2012.

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

	31 Dec 12	31 Dec 11
	$000	$000
Profit for the half-year	**27,839**	26,297
Depreciation and amortisation	**6,411**	6,093
Non-cash employee benefits expense - share based payments	**95**	208
Other non-cash expenses	**19**	219
Net loss on sale of non-current assets	**34**	423
Net exchange differences	**537**	(1,438)
(Increase) in trade and other receivables	**(10,324)**	(8,192)
(Increase) in inventories	**(28,035)**	(12,246)
(Increase) in deferred tax asset	**(2,408)**	(2,413)
(Increase) in other non-current assets	**(839)**	-
Increase in trade and other payables	**20,107**	17,664
Increase in current tax liabilities	**933**	5,869
Increase in provisions	**843**	1,391
Increase in deferred revenue	**12,902**	12,925
Net cash inflow from operating activities	**28,114**	46,800

CORPORATE DIRECTORY

DIRECTORS
Sir Richard Michael Hill, K.N.Z.M. (Chairman)
E.J. Hill B.Com., M.B.A. (Deputy Chairman)
M.R. Parsell (Chief Executive Officer)
G.J. Gwynne
L.W. Peters M.B.A.,FFin.
G.W. Smith B.Comm., F.C.A., F.A.I.C.D.
Ann Christine Lady Hill Dip F.A.
D.W. McGeoch (Colvin) B.A.

COMPANY SECRETARY
W.K. Butler B.Com., F.C.I.S.

REGISTERED OFFICE
The Offices of Kensington Swan
Ground Floor
KPMG Building
18 Viaduct Harbour Avenue
Auckland
(All communications to
GPO Box 2922
Brisbane, QLD 4001, Australia)

CORPORATE HEAD OFFICE
Metroplex on Gateway
7 Smallwood Place
Murarrie, Qld 4172
GPO Box 2922
Brisbane, QLD 4001, Australia
Telephone 617 3114 3500
Fax 617 3399 0222

SHARE REGISTRAR
Computershare Investor Services Ltd
Level 2, 159 Hurstmere Rd
Takapuna
North Shore City
Investor Enquiries (09) 488 8777

SOLICITORS
Kensington Swan
PO Box 10246
Wellington
New Zealand

AUDITORS
Ernst & Young
Level 51
One One One
111 Eagle Street
Brisbane, QLD 4000
Australia

BANKERS
ANZ Banking Group (New Zealand) Limited
Australia and New Zealand Banking Group Limited
Bank of America N.A.
Bank of Montreal

WEBSITE
www.michaelhill.com
http://investor.michaelhill.com

EMAIL
inquiry@michaelhill.com.au

michael hill
INTERNATIONAL LIMITED

michaelhill.com