

Michael Hill International Limited
ABN 25 610 937 598
Appendix 4D
Results for announcement to the market
Half-year report 31 December 2017

Reporting period: 1 July 2017 to 31 December 2017
Previous corresponding reporting period: 1 July 2016 to 31 December 2016

Results in brief

	31 Dec 2017 \$'000	31 Dec 2016 \$'000	Change \$'000	Change %
Revenue from continuing operations	342,214	327,502	14,712	4.5%
Net profit before tax	13,608	38,237	(24,629)	(64.4)%
Net profit after tax	8,697	25,753	(17,056)	(66.2)%

Dividends

	Amount per security Cents	Franked amount per security Cents
31 December 2017		
Interim dividend ¹	AU 2.50c	AU .00c
	Amount per security Cents	Franked amount per security Cents
31 December 2016		
Interim dividend	AU 2.50c	AU 1.25c
Final dividend ²	AU 2.50c	AU .00c

1. The record date for determining entitlements to the interim dividend of AU 2.5 cents per share is 15 March 2018. The payment date for the interim dividend is 29 March 2018. The dividend will be unfranked and fully imputed. In addition, the dividend will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to Michael Hill International Limited's foreign shareholders.

2. Final dividend of AU 2.5 cents per share for the year ended 30 June 2017 was declared on 18 August 2017.

There is no dividend reinvestment plan in operation for Michael Hill International Limited.

For commentary on the above figures, please refer to the Directors' Report.

Michael Hill International Limited
Appendix 4D
31 December 2017
(continued)

Net tangible assets	31 Dec 2017	31 Dec 2016
Net tangible asset backing per ordinary security	\$0.49	\$0.52

Entities of which control has been gained or lost

Control has not been gained or lost in relation to any entity during the period. Refer to note 14 of the annual report for the year ended 30 June 2017 for full details on subsidiaries.

Associate and joint venture entities

Michael Hill International Limited has no associate or joint venture entities.

This report should be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by Michael Hill International Limited in accordance with the continuous disclosure requirements arising under the *Corporations Act 2001 (Cth)*, *ASX Listing Rules* and *NZX Listing Rules*.



E J Hill
Chair
21 February 2018
Brisbane

Michael Hill International Limited ABN 25 610 937 598

Interim report - 31 December 2017

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This interim financial report does 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 2017 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*, *ASX Listing Rules* and *NZX Listing Rules*.

Directors' report

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Michael Hill International Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors

The following persons were directors of Michael Hill International Limited for the entire half-year and up to the date of this report.

E J Hill
Sir R M Hill
G W Smith
R I Fyfe
J S Allis

Principal activities

The Group operates predominately in the retail sale of jewellery and related services in Australia, New Zealand, Canada and the United States.

There were no significant changes in the nature of the Group's activities during the half-year to 31 December 2017.

Review of operations

Key financial results

- Operating revenues increased by 4.5% to \$342.2m (1H2017: \$327.5m)
- Group same store sales increased by 0.3% to \$316.8m (1H2017: 0.8% increase)
- Statutory net profit after tax profit of \$8.7m (1H2017: \$25.8m)
- Statutory earnings before interest and tax of \$15.1m (1H2017: \$40.0m)
- Underlying earnings before interest and tax of \$34.9m (1H2017: \$40.0m), which is calculated by excluding the pre-tax adjustment of \$19.8m for onerous leases and provisions for impairment relating to the planned exit from the US market and the repositioning of the Emma & Roe brand.
- Underlying net profit after tax declined 7.0% to \$23.9m (1H2017: \$25.8m). This is calculated by excluding the post-tax \$15.2m adjustment for impairment and onerous lease provisions
- Net operating cash flow increased by 165.7% to \$42.3m (1H2017: \$15.9m)
- Net debt reduction of 37.3% to \$23.0m (1H2017: \$36.6m)
- Equity ratio reduced to 47.1% (1H2017: 48.9%)
- eCommerce sales increased by 73% to \$5.6m (1H2017: \$3.3m)
- Interim dividend of AU 2.5 cents per share, in line with 1H2017, unfranked and fully imputed

Operational performance

- Strong performance in the Michael Hill brand, particularly in Canada
- Opened 14 new Michael Hill stores to bring total Group stores to 347
- Michael Hill total store sales growth of 4.1% and same store sales growth of 0.5%
- Emma & Roe total store sales growth of 20.1% and same store sales decline of 5.4%

Michael Hill International Limited
Directors' report
31 December 2017
(continued)

Review of operations (continued)

Key Facts

	31 Dec 2017 \$'000	31 Dec 2016 \$'000	+/-%
TRADING RESULTS			
SIX MONTHS ENDED (AU \$'000)			
Revenue	342,214	327,502	4.5%
EBIT	15,145	40,018	(62.2)%
Group profit after tax	8,697	25,753	(66.2)%
Net cash from operating activities	42,255	15,904	165.7%
Dividends paid	9,686	9,578	1.1%
	31 Dec 2017 \$'000	31 Dec 2016 \$'000	30 June 2017 \$'000
FINANCIAL POSITION			
Contributed equity	10,015	10,015	10,015
Total equity	201,397	208,055	202,183
Total assets	427,174	425,128	389,122
Net debt	22,964	36,628	39,358
	31 Dec 2017	31 Dec 2016	30 June 2017
NUMBER OF STORES			
Michael Hill			
Australia	172	170	166
New Zealand	53	53	52
Canada	83	72	76
United States	9	10	9
Total Michael Hill stores	317	305	303
Emma & Roe			
Australia	29	23	28
New Zealand	1	1	1
Total Emma & Roe stores	30	24	29
	31 Dec 2017 \$'000	31 Dec 2016 \$'000	30 June 2017 \$'000
KEY MEASURES			
Share price 31 December (AU\$)	1.23	1.27	1.11
Basic earnings per share (AUc)	2.24	6.70	8.46
Equity ratio (%)	47.1	48.9	52.0
Current ratio	2.3:1	2.6:1	3.0:1

Review of operations (continued)

Review of operations and results

Michael Hill International Limited (ASX/NZX: MHJ) today announced an after tax profit of \$8.7m for the six months ended 31 December 2017.

The Group's core Michael Hill businesses in Australia, New Zealand and Canada performed strongly during the first-quarter before experiencing a slowdown in the second quarter, in particular the November trading period, where sales fell short of expectations. This challenging November period, combined with a heavier investment in our marketing efforts, resulted in a flat EBIT result from the combined three businesses.

Canada continues to deliver exceptional growth with a 17.6% increase in revenue and EBIT, and the Company is actively seeking further opportunities to expand the business and capture additional market share. This includes the opening of seven new stores in the first half with current plans to expand store numbers to 105 in the next two to three years.

The Directors are pleased with the progress of the omnichannel strategy with 73% growth achieved in eCommerce sales during the first half. This gives us confidence that we are taking the right steps towards delivering a fully integrated omnichannel experience for our customers.

The Group also made significant progress in working through the business challenges it faced during the first-half, leading to a decision in January 2018 to exit the US and reposition Emma & Roe into a new market segment with a material reduction in stores. These decisions have impacted our first-half audited accounts materially to the extent of \$19.8m. The actual cash cost of these two decisions will not be determined until the conclusion of the respective closures of stores involved.

The Directors are confident these strategic actions will deliver greater long-term value for shareholders and currently expect the exit of the US and repositioning of Emma & Roe to be completed by the end of FY2018.

The Company strengthened its balance sheet by reducing net debt to \$23.0m from \$36.6m in the same period last year, while net operating cash flows increased back to normal levels at \$42.3m, compared to \$15.9m in the prior comparable period.

Michael Hill Australia retail segment

	31 Dec 2017 AU\$'000	31 Dec 2016 AU\$'000	+/- %
For the six months ending			
Revenue	184,953	181,994	1.6%
Gross profit	117,450	113,525	3.5%
Gross profit % of revenue	63.5%	62.4%	1.1%
EBIT	32,569	33,663	-3.2%
EBIT % of revenue	17.6%	18.5%	-0.9%
Number of stores	172	170	2

Included in EBIT figure above:

Impairment	22	13
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The Australian segment faced challenging retail conditions in the first half resulting in flat same store sales for the period. Total first-half revenues increased to \$185.0m, up 1.6%, with an increase in gross profit margin to 63.5% particularly pleasing. However, results for the period were affected by a challenging November trading period and an increase in marketing costs, resulting in a first half EBIT of \$32.6m down from \$33.7m in the prior corresponding period. December 2017 trading was steady on the prior year, with 2018 trade in January and February (to date) slightly up on the previous year.

Review of operations (continued)

A continued focus on the productivity of the Company's existing store portfolio is the key priority for the retail leadership team, to achieve a stronger sales performance in the second half.

Michael Hill New Zealand retail segment

	31 Dec 2017 NZ\$'000	31 Dec 2016 NZ\$'000	+/- %
For the six months ending			
Revenue	69,685	66,905	4.2%
Gross profit	43,000	41,476	3.7%
Gross profit % of revenue	61.7%	62.0%	-0.3%
EBIT	15,773	16,525	-4.6%
EBIT % of revenue	22.6%	24.7%	-2.1%
Number of stores	53	53	

Included in EBIT figure above:

Impairment	11	-
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The New Zealand segment achieved solid revenue growth of NZ\$69.7m for the first-half, an increase of 4.2%, and same store sales growth of 3.5%. A slight decline in gross margin of 0.3% combined with an increase in our payment plan costs, resulted in EBIT declining 4.6% to NZ\$15.8m for the half. A series of actions have been implemented with the aim of addressing the gross margin shortfall and bringing payment plan costs back down to previous levels.

The priority for the second half is to lift gross margin and manage the segments payment plan costs to a more sustainable level.

Michael Hill Canada retail segment

	31 Dec 2017 CA\$'000	31 Dec 2016 CA\$'000	+/- %
For the six months ending			
Revenue	73,739	62,723	17.6%
Gross profit	45,828	38,353	19.5%
Gross profit % of revenue	62.1%	61.1%	1.0%
EBIT	10,388	8,835	17.6%
EBIT % of revenue	14.1%	14.1%	-%
Number of stores	83	72	11

Canada continues to be a major growth opportunity for the Group following another strong first half result reflecting strong leadership and improved brand recognition. Revenues increased 17.6% to CA\$73.7m with same store sales also lifting 4.1%. The segment recorded a 17.6% rise in EBIT to CA\$10.4m, supported by strong sales and an increase in gross profit margin of 1.0%. The Company now has 83 stores and plans to add a further store in the current period.

Review of operations (continued)

Michael Hill United States retail segment

	31 Dec 2017 US\$'000	31 Dec 2016 US\$'000	+/- %
For the six months ending			
Revenue	5,961	7,030	-15.2%
Gross profit	3,604	4,217	-14.5%
Gross profit % of revenue	60.5%	60.0%	0.5%
EBIT	(5,582)	(1,111)	-404.2%
EBIT % of revenue	(93.6)%	(15.8)%	-77.9%
Number of stores	9	10	(1)

Included in EBIT figure above:

Impairment	2,779	-
Onerous lease provision	709	-

The performance of the US segment continued to deteriorate and resulted in the Group announcing in January its decision to exit its operations in the country. Revenues declined 15.2% to US\$6.0m, while the segment contributed to an underlying EBIT loss of US\$2.1m. The Statutory EBIT loss was US\$5.6m, including a US\$3.5m charge for onerous leases and impairment of assets.

The Company continues to explore its options to exit, either via the successful sale of the business or through reaching agreement with the landlords of the nine stores. This is currently planned to be completed by the end of FY2018.

Emma & Roe retail segment

	31 Dec 2017 \$'000	31 Dec 2016 \$'000	+/- %
For the six months ending			
Revenue	10,503	8,749	20.1%
Gross profit	7,079	5,775	22.6%
Gross profit % of revenue	67.4%	66.0%	1.4%
EBIT	(19,580)	(2,219)	-782.4%
EBIT % of revenue	(186.4)%	(25.4)%	-161.1%
Number of stores	30	24	6

Included in EBIT figure above:

Impairment	7,795	-
Onerous lease provision	7,445	-

While total revenues grew 20.0% to \$10.5m in the period due to an increase in stores, same store sales growth declined by 5.4% with the Emma & Roe business incurring an underlying EBIT loss of \$4.4m for the first half. Statutory EBIT was recorded at a loss of \$19.6m, including a \$15.2m impairment for onerous leases and impairment of assets.

In January, the Company announced it would reposition the Emma & Roe brand into demi-fine jewellery, an emerging segment of the market combining fine jewellery with fashion for those customers seeking stylish yet affordable items to accessorise their wardrobe. This new proposition will include a smaller, more concentrated store footprint as the Company trials the new concept. A decision on the new Emma & Roe store footprint is intended to be made in the coming month, pending further landlord discussions.

Review of operations (continued)

Forward looking statements above represent the current intentions and expectations of the Directors, which may change due to matters outside the Company's control or where alternative courses of action or decisions are considered to be in the best interests of the Company.

Strategic update

Seven new stores were opened in the Canadian market during the first half and another one is planned for the second half. It is anticipated that the Canadian segment will grow to approximately 105 stores over the next 2 to 3 years. The decision to exit the US will allow our North American General Manager to focus on this growing market as it completes its store growth program and maximises the bottom line, while taking market share from increased market awareness and achieving scale in overheads.

Management is taking the necessary steps to strengthen our core businesses through a continued focus on the productivity of our stores, and significant growth opportunities presented by a repositioned Emma & Roe brand, further expansion of Michael Hill in Canada and enhancements to the Group's omnichannel strategy.

The Company has undertaken a comprehensive review of Emma & Roe to help shape the future strategic direction of the brand. The findings of this review identified a major opportunity in the demi-fine jewellery segment and emergence in customer preferences towards fine fashion. Demi-fine is an emerging segment of the market combining fine jewellery with fashion for those customers seeking stylish yet affordable items to accessorise their wardrobe. By bridging the gap between these two categories, it allows customers with a preference for fine jewellery to achieve their desired look but at a lower price.

The Company intends to reposition Emma & Roe to this identified segment in late FY18 and FY19. This will involve further investments in the Company's omnichannel capabilities to provide customers with a seamless cross-channel experience, and marketing initiatives to drive additional eCommerce revenue opportunities. This will be further supported through the revamping of stores to provide an immersive in-store retail experience and to capture the essence of the new brand positioning. Exact store numbers are still uncertain as this will be driven to a large extent by ongoing negotiations with our landlords. Statements in this paragraph represent the Board's present intentions and may change.

Branded collections bring unique and distinct design to the market and represent an opportunity to secure a premium gross margin. Branded collection sales continue to grow as a percentage of total revenue and new collections are under development for later in the year.

New sales channel opportunities being explored include clearance stores and popular online market places.

Investment in key systems and infrastructure will continue at a measured pace to ensure the business is positioned to tackle ongoing rapid change in the retail environment and shifts in consumer shopping habits and sentiment. Microsoft Dynamics 365 for Retail is being deployed across the Group with the aim to bring all key management information systems into a fully integrated environment. Point of Sale is being rolled out currently across our stores, finance is already deployed as is CRM and further modules are being planned for implementation in an orderly sequence.

This integrated environment will allow seamless movement of data from a customer's first touch point through the entire customer journey whether it be pure play on-line, in-store or a blended omnichannel experience.

Key financial results

Dividends

The Directors announce an interim dividend of AU2.5¢ per share (2016 - AU2.5¢), unfranked and fully imputed. The dividend will be paid on 29 March 2018 with the record date being 15 March 2018. The dividend will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to our foreign shareholders.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on page 8 and forms part of this report.

Rounding of amounts

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191.

The Company is an entity to which the legislative instrument applies.

This report is made on 21 February 2018 in accordance with a resolution of Directors.

A handwritten signature in black ink, appearing to read 'E J Hill', written in a cursive style.

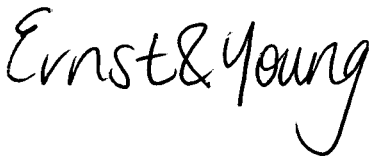
E J Hill
Chair
Brisbane
21 February 2018

Auditor's Independence declaration to the directors of Michael Hill International Limited

As lead auditor for the review of Michael Hill International Limited for the half-year ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Michael Hill International Limited and the entities it controlled during the financial period.



Ernst & Young



Alison de Groot
Partner
21 February 2018

Michael Hill International Limited
Consolidated statement of comprehensive income
For the half-year 31 December 2017

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Revenue from continuing operations	342,214	327,502
Other income	417	161
Cost of goods sold	(120,423)	(118,061)
Employee benefits expense	(88,351)	(83,034)
Occupancy costs	(31,608)	(29,090)
Marketing expenses	(23,387)	(17,821)
Selling expenses	(16,027)	(14,248)
Depreciation and amortisation expense	(10,986)	(9,650)
Loss on disposal of property, plant and equipment	(14)	(300)
Impairment of property, plant and equipment	(11,528)	(13)
Onerous lease provision	(8,376)	-
Other expenses	(16,782)	(15,419)
Finance costs	(1,541)	(1,790)
Profit before income tax	13,608	38,237
Income tax expense	(4,911)	(12,484)
Profit for the half-year	8,697	25,753
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss</i>		
Cash flow hedges	376	453
Currency translation differences arising during the half-year	(445)	97
Other comprehensive income for the half-year, net of tax	(69)	550
Total comprehensive income for the half-year	8,628	26,303
Total comprehensive income for the half-year is attributable to:		
Owners of Michael Hill International Limited	8,628	26,303
	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:		
Basic earnings per share	2.24	6.70
Diluted earnings per share	2.23	6.66

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

Michael Hill International Limited
Consolidated statement of financial position
As at 31 December 2017

	Notes	31 Dec 2017 \$'000	31 Dec 2016 \$'000	30 Jun 2017 \$'000
ASSETS				
Current assets				
Cash and cash equivalents		18,215	11,649	5,676
Trade and other receivables	3	32,212	30,815	24,219
Inventories		224,281	231,814	203,853
Derivative financial instruments	3	-	360	-
Current tax receivables		-	-	888
Other current assets		4,531	4,250	3,945
Total current assets		279,239	278,888	238,581
Non-current assets				
Trade and other receivables	3	3,561	1,478	2,371
Property, plant and equipment	4	70,937	77,767	79,436
Deferred tax assets		60,624	59,116	57,893
Intangible assets	5	10,961	5,560	8,784
Other non-current assets		1,852	2,319	2,057
Total non-current assets		147,935	146,240	150,541
Total assets		427,174	425,128	389,122
LIABILITIES				
Current liabilities				
Trade and other payables	3	74,163	70,931	47,918
Derivative financial instruments	3	764	218	1,141
Current tax liabilities		881	3,629	-
Provisions	6	16,030	5,461	4,670
Deferred revenue		27,905	27,434	25,924
Total current liabilities		119,743	107,673	79,653
Non-current liabilities				
Borrowings		41,179	48,277	45,034
Provisions	6	5,671	5,078	6,235
Deferred revenue		59,184	56,045	56,017
Total non-current liabilities		106,034	109,400	107,286
Total liabilities		225,777	217,073	186,939
Net assets		201,397	208,055	202,183
EQUITY				
Contributed equity	7	10,015	10,015	10,015
Reserves		484	3,362	281
Retained profits		190,898	194,678	191,887
Total equity		201,397	208,055	202,183

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

Michael Hill International Limited
Consolidated statement of changes in equity
For the half-year 31 December 2017

		Attributable to owners of Michael Hill International Limited					
	Notes	Contributed equity \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017		10,015	1,136	285	(1,140)	191,887	202,183
Profit for the half-year		-	-	-	-	8,697	8,697
Currency translation differences		-	-	(445)	-	-	(445)
Currency forward contracts		-	-	-	216	-	216
Interest rate swaps		-	-	-	160	-	160
Total comprehensive income for the half-year		-	-	(445)	376	8,697	8,628
Transactions with owners in their capacity as owners:							
Dividends paid	8	-	-	-	-	(9,686)	(9,686)
Option expense through share based payments reserve		-	23	-	-	-	23
Share rights expense through share based payments reserve		-	249	-	-	-	249
		-	272	-	-	(9,686)	(9,414)
Balance at 31 December 2017		10,015	1,408	(160)	(764)	190,898	201,397

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

Michael Hill International Limited
Consolidated statement of changes in equity
For the half-year 31 December 2017
(continued)

		Attributable to owners of Michael Hill International Limited					
	Notes	Contributed equity \$'000	Share based payments reserve \$'000	Foreign currency translation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016		3,767	2,188	2,827	(884)	178,503	186,401
Profit for the half-year		-	-	-	-	25,753	25,753
Currency translation differences		-	-	97	-	-	97
Currency forward contracts		-	-	-	(61)	-	(61)
Interest rate swaps		-	-	-	514	-	514
Total comprehensive income for the half-year		-	-	97	453	25,753	26,303
Transactions with owners in their capacity as owners:							
Dividends paid	8	-	-	-	-	(9,578)	(9,578)
Option expense through share based payments reserve		-	29	-	-	-	29
Share rights expense through share based payments reserve		-	75	-	-	-	75
Issue of share capital - exercise of options		4,825	-	-	-	-	4,825
Transfer option reserve to contributed equity on exercise of options		712	(712)	-	-	-	-
Transfer option reserve to contributed equity on forfeiture of options		711	(711)	-	-	-	-
		6,248	(1,319)	-	-	(9,578)	(4,649)
Balance at 31 December 2016		10,015	869	2,924	(431)	194,678	208,055

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

Michael Hill International Limited
Consolidated statement of cash flows
For the half-year 31 December 2017

	31 Dec 2017	31 Dec 2016
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST and sales taxes)	373,902	364,770
Payments to suppliers and employees (inclusive of GST and sales taxes)	(309,349)	(302,462)
	64,553	62,308
Interest received	4	9
Other revenue	417	161
Interest paid	(1,501)	(1,696)
Income tax paid	(5,589)	(28,481)
Net GST and sales taxes paid	(15,629)	(16,397)
Net cash inflow from operating activities	10 42,255	15,904
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	180	57
Payments for property, plant and equipment	(12,555)	(14,680)
Payments for intangible assets	(3,619)	(1,302)
Net cash (outflow) from investing activities	4 (15,994)	(15,925)
Cash flows from financing activities		
Proceeds from borrowings	65,000	89,500
Payments for share options exercised	-	4,825
Repayment of borrowings	(69,000)	(82,000)
Dividends paid to Company's shareholders	(9,686)	(9,578)
Net cash (outflow) inflow from financing activities	8 (13,686)	2,747
Net increase in cash and cash equivalents	12,575	2,726
Cash and cash equivalents at the beginning of the financial year	5,676	8,853
Effects of exchange rate changes on cash and cash equivalents	(36)	70
Cash and cash equivalents at end of half-year	18,215	11,649

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation

These consolidated interim financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

These consolidated 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 2017 and any public announcements made by Michael Hill International Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)*, *ASX Listing Rules* and *NZX Listing Rules*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Michael Hill International Limited (the Company) is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded. The Group's principal activity is the sale of jewellery and related services. The Company listed on the Australian Securities Exchange ('ASX') on 7 July 2016 as its primary listing, and maintains a secondary listing on the New Zealand Stock Exchange ('NZX').

Due to the seasonal nature of selling jewellery and related services, higher revenues and operating profits are usually expected in the first half of the financial year. Accordingly, inventory levels and working capital levels are higher at the end of the first half of the financial year rather than at the end of the financial year. A comparative half-year balance sheet has been included in the consolidated statement of financial position. This information is provided to allow for a better understanding of the results. However, management has concluded that this is not 'highly seasonal' in accordance with IAS 34.

These consolidated interim financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the six months ended 31 December 2017 were authorised for issue in accordance with a resolution of the Directors on 21 February 2018.

2 Segment information

(a) Identification and description of segments

Management have determined the operating segments based on the reports reviewed by the Board and Executive Team that are used to make strategic decisions. The Board and Executive team consider, organise and manage the business primarily from a brand perspective. For the Michael Hill brand, they also consider, organise and manage the business from a geographic perspective, being the country of origin where the sale and service was performed. The segment definition was amended during the 2017 financial year and now includes trading activity from our stores, online presence and North American in-house credit function. 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 amounts provided to the Board and Executive team in respect of total assets and liabilities are measured in a manner consistent with the financial statements. These reports do not allocate total assets or total liabilities based on the operations of each segment or by geographical location.

The Group operates in 4 geographical segments: Australia, New Zealand, Canada and the United States of America.

The corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill or Emma & Roe retail segments. These predominately relate to corporate costs and Australian based support costs, but also include manufacturing activities, warehouse and distribution, interest and company tax. Inter-segment pricing is at arm's length or market value.

2 Segment information (continued)

(a) Identification and description of segments (continued)

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 by brand and geographic areas.

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.

Segment information by brand

for the period ended 31 December 2017	Michael Hill \$'000	Emma & Roe \$'000	Corporate & other \$'000	Group \$'000
Operating revenue	331,657	10,503	54	342,214
Gross profit	208,203	7,079	6,509	221,791
Gross profit %	62.8%	67.4%	-	64.8%
EBITDA	58,735	(18,433)	(14,171)	26,131
Depreciation and amortisation	(8,362)	(1,147)	(1,477)	(10,986)
EBIT	50,373	(19,580)	(15,648)	15,145
Interest income	2	-	2	4
Finance costs	18	6	(1,565)	(1,541)
Net profit before tax	50,393	(19,574)	(17,211)	13,608
Income tax expense	-	-	-	(4,911)
Net profit after tax	50,393	(19,574)	(17,211)	8,697

Included in EBIT figure above:

Segment impairment	3,680	7,795	53	11,528
Segment onerous lease provision	931	7,445	-	8,376

for the period ended 31 December 2016	Michael Hill \$'000	Emma & Roe \$'000	Corporate & other \$'000	Group \$'000
Operating revenue	318,336	8,749	417	327,502
Gross profit	197,333	5,775	6,333	209,441
Gross profit %	62.0%	66.0%	-	64.0%
EBITDA	64,615	(1,663)	(13,284)	49,668
Depreciation and amortisation	(7,725)	(556)	(1,369)	(9,650)
EBIT	56,890	(2,219)	(14,653)	40,018
Interest income	-	-	9	9
Finance costs	(3)	(4)	(1,783)	(1,790)
Net profit before tax	56,887	(2,223)	(16,427)	38,237
Income tax expense	-	-	-	(12,484)
Net profit after tax	56,887	(2,223)	(16,427)	25,753

Included in EBIT figure above:

Segment impairment	13	-	-	13
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2 Segment information (continued)

Michael Hill retail segment by country

	Australia \$'000	New Zealand \$'000	Canada \$'000	United States \$'000	Michael Hill \$'000
for the period ending 31 December 2017					
Segment operating revenue	184,953	63,786	75,226	7,692	331,657
Gross profit	117,450	39,357	46,745	4,651	208,203
Segment gross profit %	63.5%	61.7%	62.1%	60.5%	62.8%
Segment EBITDA	36,673	15,668	13,140	(6,746)	58,735
Segment depreciation and amortisation	(4,104)	(1,237)	(2,510)	(511)	(8,362)
Segment EBIT	32,569	14,431	10,630	(7,257)	50,373
Segment EBIT as a % of revenue	17.6%	22.6%	14.1%	(94.3)%	15.2%
Segment interest income	2	-	-	-	2
Segment finance costs	8	10	-	-	18
Segment net profit before tax	32,579	14,441	10,630	(7,257)	50,393
<i>Included in EBIT figure above:</i>					
Segment impairment	22	10	-	3,648	3,680
Segment onerous lease provision	-	-	-	931	931
for the period ended 31 December 2016					
Segment operating revenue	181,994	63,770	63,219	9,353	318,336
Gross profit	113,525	39,534	38,662	5,612	197,333
Segment gross profit %	62.4%	62.0%	61.2%	60.0%	62.0%
Segment EBITDA	37,442	17,034	10,957	(818)	64,615
Segment depreciation and amortisation	(3,779)	(1,267)	(2,030)	(649)	(7,725)
Segment EBIT	33,663	15,767	8,927	(1,467)	56,890
Segment EBIT as a % of revenue	18.5%	24.7%	14.1%	(15.7)%	17.9%
Segment finance costs	8	(11)	-	-	(3)
Segment net profit before tax	33,671	15,756	8,927	(1,467)	56,887
<i>Included in EBIT figure above:</i>					
Segment impairment	13	-	-	-	13

3 Financial assets and financial liabilities

Set out below is an overview of financial assets, other than cash and short-term deposits, held by the Group as at 31 December 2017 and 30 June 2017:

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Financial assets at amortised cost:		
Trade and other receivables	35,773	26,590
Total current	32,212	24,219
Total non current	3,561	2,371

Set out below is an overview of financial liabilities held by the Group as at 31 December 2017 and 30 June 2017:

	31 Dec 2017 \$'000	30 Jun 2017 \$'000
Financial liabilities at amortised cost:		
Trade and other payables	74,163	47,918
Non-current interest bearing loans and borrowings		
Secured bank loan	41,179	45,034
Derivatives designated as hedging instruments:		
Foreign exchange forward contracts	198	414
Interest rate swaps	566	727
Total current	74,927	49,059
Total non current	41,179	45,034

4 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2017, the Group acquired assets with a total cost of \$12,555,000 (31 December 2016 - \$14,680,000). Assets with a net book value of \$194,000 were disposed of during the six months ended 31 December 2017 (31 December 2016 - \$357,000), resulting in a net loss on disposal of \$14,000 (31 December 2016 - \$300,000 loss).

Impairment

An impairment charge of \$11,528,000 was recognised during the six months ended 31 December 2017 reporting period (31 December 2016: \$13,000). Management and the Board have been assessing the US and Emma & Roe markets for a period of time and trading results during the half-year indicated the assets directly employed by these segments at 31 December 2017 were impaired. Following the half-year end, a decision was made to reposition the Emma & Roe brand and materially reduce the number of Emma & Roe stores. Therefore, \$7,795,000 in Emma & Roe related assets were impaired. In addition, the Group announced that it is exiting its US operations and all assets currently on hand that are not expected to be redeployed within other segments were impaired, resulting in a \$3,648,000 impairment of assets.

5 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2017, the Group acquired assets with a total cost of \$3,619,000 (31 December 2016 - \$1,302,000). No assets were disposed of during the six months ended 31 December 2017 (31 December 2016 - no disposals), resulting in no net loss on disposal (31 December 2016 - no loss).

The significant increase in intangible assets is part of the 2017-18 priorities to continue investing in the Group's information systems and migrate the organisation onto a highly integrated ERP environment. This includes the upgrade of the existing point of sale system during the 2017-18 financial year.

6 Provisions

	31 Dec 2017			30 Jun 2017		
	Current \$'000	Non- current \$'000	Total \$'000	Current \$'000	Non- current \$'000	Total \$'000
Employee benefits	2,040	2,079	4,119	1,894	1,931	3,825
Returns provision	4,851	-	4,851	2,518	-	2,518
Make good provision	691	3,592	4,283	223	4,246	4,469
Onerous leases	8,448	-	8,448	35	58	93
	16,030	5,671	21,701	4,670	6,235	10,905

(a) Onerous leases

A provision has been recognised at the reporting date for 21 of 30 Emma & Roe and 2 of 9 US leases that were identified as onerous. An onerous contract is considered to exist where the unavoidable cost of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. The future economic benefits available under the existing leases considered the current operating environment for these two segments and the strategic reviews underway for Emma & Roe and the US markets as at the end of the half-year end. A decision has been made by Management and the Board since half-year end to exit its US operations and materially reduce Emma & Roe store numbers.

7 Contributed equity

(a) Share capital

	31 Dec 2017 Shares	30 Jun 2017 Shares	31 Dec 2017 Half-year \$'000	30 Jun 2017 Full-year \$'000
Share capital				
Ordinary shares - fully paid	387,438,513	387,438,513	10,015	10,015

7 Contributed equity (continued)

(b) Movements in ordinary share capital

	31 Dec 2017 Shares	30 Jun 2017 Shares	31 Dec 2017 Half-year \$'000	30 Jun 2017 Full year \$'000
Ordinary shares				
Opening balance	387,438,513	383,138,513	10,015	3,767
Exercise of options - proceeds received	-	4,300,000	-	4,825
Transfer option reserve to contributed equity	-	-	-	1,423
Closing balance	387,438,513	387,438,513	10,015	10,015

8 Dividends

(a) Ordinary shares

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Final dividend for the year ended 30 June 2017 of 2.5 cents (2016: AU 2.5 cents) per fully paid share paid on 29 September 2017 (2016: 6 October 2016)	9,686	9,578

(b) Dividends not recognised at the end of the reporting period

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
In addition to the above dividends, since half-year end the Directors have recommended the payment of an interim dividend of 2.5c cents per fully paid ordinary share (2016 - AU 2.5 cents), unfranked and fully imputed*. The aggregate amount of the proposed dividend expected to be paid on 29 March 2018 out of retained earnings at 31 December 2017, but not recognised as a liability at half-year end, is	9,686	9,686

* This will be declared as conduit foreign income, therefore no Australian withholding tax will be deducted from the dividend payment to Michael Hill International Limited's foreign shareholders.

(c) Franked dividends

As the dividend recommended by the Directors since half-year end, but not recognised as a liability at half-year end, will be unfranked, there will be no reduction in the franking account. The impact on the imputation credit account of the dividend recommended by the Directors since half-year end, but not recognised as a liability at half-year end, is estimated to be a reduction in the imputation credit account of NZ\$4,138,000 (NZ\$3,905,000). The amount of imputation credits is dependent on the NZD exchange rate at the time of payment of the dividend.

9 Events occurring after the reporting period

On 24 January 2018, the Company announced the strategic repositioning of the Emma & Roe brand and the exit of its US operations. As at the date of signing, the Company continues to assess the viability of its 30 Emma & Roe stores to determine the final store portfolio to trial the repositioned brand. US stores will continue to operate as the Company negotiates and completes the exit of its US operations.

No formal plan for the Emma & Roe brand repositioning or the US exit has finalised as at signing date, and therefore no restructuring provision was recognised as at 31 December 2017. All assets in both segments were impaired at 31 December 2017 and a number of onerous leases were provided for as per notes 4 and 6.

There have been no other significant events after the end of the reporting period.

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

	31 Dec 2017 \$'000	31 Dec 2016 \$'000
Profit for the half-year	8,697	25,753
Depreciation	10,986	9,650
Impairment	11,528	-
Non-cash employee benefits expense - share-based payments	272	104
Other non-cash expenses	34	150
Net loss on sale of non-current assets	14	300
Net exchange differences	442	(621)
Change in operating assets and liabilities:		
(Increase) / decrease in trade and other receivables	(9,112)	(4,300)
(Increase) / decrease in inventories	(19,234)	(23,603)
(Increase) / decrease in deferred tax assets	(4,178)	4,725
(Increase) / decrease in other current assets	(563)	772
(Increase) / decrease in other non current assets	222	(101)
(Decrease) / increase in trade and other payables	26,248	22,313
(Decrease) / increase in current tax liabilities	575	(25,142)
(Decrease) / increase in provisions	10,359	256
(Decrease) / increase in deferred revenue	5,965	5,648
Net cash inflow from operating activities	42,255	15,904

Directors' declaration

For the purposes of section 303(4) of the *Corporations Act 2001 (Cth)* and for all other purposes, the Directors declare that in their opinion:

- (a) the interim financial statements and notes set out on pages 9 to 20 are in accordance with the *Corporations Act 2001 (Cth)*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001 (Cth)* and other mandatory professional reporting requirements and regulations, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made on 21 February 2018 in accordance with a resolution of Directors.



E J Hill
Chair
Brisbane
21 February 2018

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

Report on the half-year financial report

Conclusion

We have reviewed the accompanying half-year financial report of Michael Hill International Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, flowing script.

Ernst & Young

A handwritten signature in black ink that reads 'Alison de Groot' in a cursive, flowing script.

Alison de Groot
Partner
Brisbane
21 February 2018

Michael Hill International Limited
Corporate directory

Directors	E J Hill B.Comm., M.B.A. <i>Chair</i> Sir R M Hill K.N.Z.M. G W Smith B.Comm., F.C.A., F.A.I.C.D. R I Fyfe J S Allis
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Auditor	Ernst & Young Level 51 One One One 111 Eagle Street Brisbane QLD 4000
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