Michael Hill International Limited
ABN 25 610 937 598
Appendix 4D
Results for announcement to the market
Half-year report 31 December 2018

Reporting period

Reporting period:	1 July 2018 to 31 December 2018
Previous reporting period:	1 July 2017 to 31 December 2017

Results for announcement to the market

				$'000
Revenue from ordinary activities	Down	2.7%	to	315,445
Earnings before interest and taxation (EBIT)*	Up	88.5%	to	28,542
Underlying EBIT before one-off items*	Down	16.0%	to	29,576
Net profit after tax (from ordinary activities) for the period attributable to members	Up	124.6%	to	19,531

* EBIT and Underlying EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information on page 6 of the Directors Report for an explanation of Non-IFRS information and a reconciliation of EBIT from continuing operations and Underlying EBIT.

Dividends

	Amount per security	Franked amount per security
31 December 2018		
Interim dividend (cents per share) 1	2.50	-

	Amount per security	Franked amount per security
31 December 2017		
Interim dividend (cents per share)	2.50	-
Final dividend (cents per share) 2	2.50	-

1. The record date for determining entitlements to the interim dividend of AU 2.5 cents per share is 13 March 2019. The payment date for the interim dividend is 27 March 2019. 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 2018 was declared on 24 August 2018.

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.

Net tangible assets	**31 Dec 2018**	31 Dec 2017
Net tangible asset backing per ordinary security	**$0.49**	$0.49

This report should be read in conjunction with the annual report for the year ended 30 June 2018 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
26 February 2019
Brisbane

Michael Hill International Limited *ABN 25 610 937 598*
Interim financial report - 31 December 2018

Contents

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 2018 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.*

DISCLAIMER

Certain statements in this announcement constitute forward-looking statements. Forward-looking statements are statements (other than statements of historical fact) relating to future events and the anticipated or planned financial and operational performance of Michael Hill International Limited and its related bodies corporate (the Company). The words “targets,” “believes,” “expects,” “aims,” “intends,” “plans,” “seeks,” “will,” “may,” “might,” “anticipates,” “would,” “could,” “should,” “continues,” “estimates” or similar expressions or the negatives thereof, identify certain of these forward-looking statements. Other forward-looking statements can be identified in the context in which the statements are made. Forward-looking statements include, among other things, statements addressing matters such as the Company’s future results of operations; financial condition; working capital, cash flows and capital expenditures; and business strategy, plans and objectives for future operations and events, including those relating to ongoing operational and strategic reviews, expansion into new markets, future product launches, points of sale and production facilities.

Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the Company’s actual results, performance, operations or achievements or industry results, to differ materially from any future results, performance, operations or achievements expressed or implied by such forward-looking statements.

Such risks, uncertainties and other important factors include, among others: global and local economic conditions; changes in market trends and end-consumer preferences; fluctuations in the prices of raw materials, currency exchange rates, and interest rates; the Company’s plans or objectives for future operations or products, including the ability to introduce new jewellery and non-jewellery products; the ability to expand in existing and new markets and risks associated with doing business globally and, in particular, in emerging markets; competition from local, national and international companies in the markets in which the Company operates; the protection and strengthening of the Company’s intellectual property rights, including patents and trademarks; the future adequacy of the Company’s current warehousing, logistics and information technology operations; changes in laws and regulations or any interpretation thereof, applicable to the Company’s business; increases to the Company’s effective tax rate or other harm to the Company’s business as a result of governmental review of the Company’s transfer pricing policies, conflicting taxation claims or changes in tax laws; and other factors referenced to in this presentation.

Should one or more of these risks or uncertainties materialise, or should any underlying assumptions prove to be incorrect, the Company’s actual financial condition, cash flows or results of operations could differ materially from that described herein as anticipated, believed, estimated or expected.

The Company does not intend, and do not assume any obligation, to update any forward-looking statements contained herein, except as may be required by law. All subsequent written and oral forward-looking statements attributable to us or to persons acting on the Company’s behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this announcement.

The Directors present their report on the consolidated entity (referred to hereafter as the 'Group') consisting of Michael Hill International Limited ACN 610 937 598 ('Michael Hill International' or the 'Company') and all controlled subsidiaries for the half-year ended 31 December 2018.

Directors

The following persons were Directors of Michael Hill International Limited during the whole of the financial period 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 and Canada.

Significant changes in the nature of the Group's activities during the half-year to 31 December 2018 have been noted below.

Significant changes in the state of affairs

During the previous financial year the Group exited its loss making retail operations in the US and significantly completed the exit of the Emma & Roe brand. Assets in both segments were impaired as appropriate during the prior reporting period. All US stores were closed in the prior financial year. Of the six remaining Emma & Roe stores at 30 June 2018, four stores were closed during the half-year to 31 December 2018. The closure programme for the final two Emma & Roe stores is still in progress. Impaired assets on hand relating to the Emma & Roe closures will be disposed of when it is determined they will not be redeployed.

There have been no other significant changes in the nature of the Group's activities during the half-year to 31 December 2018.

Review of operations

Key financial results

• Statutory net profit after tax increased by 125% to $19.5m (FY18H1: $8.7m)
• Statutory earnings before interest and tax increased by 88% to $28.5m (FY18H1: $15.1m)
• Underlying earnings before interest and tax declined by 16% to $29.6m (FY18H1: $35.2m)
• Group operating revenue declined by 2.7% for the half
• Gross margin stable at 62.6% (FY18H1: 62.7%), despite FX headwinds impacting cost of goods
• Same store sales declined by 6.1% for the half reflecting an improvement in Q2 (down 3.0% to LY) compared to Q1 (down 11.0% to LY)
• Net debt reduction of 9.7% to $20.7m (FY18H1: $23.0m)
• Interim dividend maintained at AU 2.5 cents per share, unfranked and fully imputed with conduit foreign income

Operational performance

• e-commerce sales increased by 68.3% to $9.5m (FY18H1: $5.6m)
• Branded Collection sales increased by 11% to 20% of total sales (up from 18% of total sales for FY18)
• Implementation of cost reduction programme, delivering $5 million in annualised savings and targeting a further $5 million in annual savings
• Six Michael Hill stores opened and three under-performing stores were closed during the period, giving a total of 311 stores trading at 31 December 2018

Review of operations (continued)

Key Facts

TRADING RESULTS	**31 Dec 2018 $'000**	31 Dec 2017 $'000	**+/-%**
SIX MONTHS ENDED (AU $000)			
Revenue from continuing operations	**315,445**	324,107	(2.7)%
Underlying EBIT*	**29,576**	35,223	(16.0)%
Group profit after tax from continuing operations	**19,531**	30,698	(36.4)%
Group gross profit	**202,486**	210,123	(3.6)%
Group gross profit %	**64.2%**	64.8%	(0.6)%
Dividends paid	**9,679**	9,686	(0.1)%

* EBIT and Underlying EBIT are Non-IFRS Information and are unaudited. Please refer to Non-IFRS Information in the Directors' Report on page 6 of this report for an explanation of Non-IFRS Information and a reconciliation of EBIT from continuing operations and Underlying EBIT.

FINANCIAL POSITION	**31 Dec 2018 $'000**	31 Dec 2017 $'000	30 June 2018 $'000
Contributed equity	**10,266**	10,015	10,266
Total equity	**200,886**	201,397	189,221
Total assets	**409,898**	427,174	375,348
Net debt	**20,745**	22,964	27,993

NUMBER OF STORES	**31 Dec 2018**	31 Dec 2017	30 June 2018
Australia *	**173**	201	177
New Zealand **	**53**	54	52
Canada	**85**	83	83
United States	**-**	9	-
Total stores	**311**	347	312

* Includes Emma & Roe stores: 31 Dec 2018 : 2 (31 Dec 2017 : 29)
** Includes Emma & Roe stores: 31 Dec 2018 : 0 (31 Dec 2017 : 1)

KEY MEASURES	**31 Dec 2018 $'000**	31 Dec 2017 $'000	30 June 2018 $'000
Share price (AU$)	**0.62**	1.23	0.97
Basic earnings per share (AUc)	**5.04**	2.24	1.19
Equity ratio (%)	**49.0**	47.1	50.4
Current ratio	**2.3:1**	2.3:1	2.6:1

Review of operations (continued)

Review of operations and results

The Group reported a statutory half-year net profit after tax (NPAT) of $19.5m for the six months ending 31 December, a 125% increase from NPAT of $8.7m in FY18H1.

Statutory earnings before interest and tax increased by 88% to $28.5m, from $15.1m in the prior corresponding period, which included prior one-off closure costs associated with the Emma & Roe and US businesses. Underlying earnings before interest and tax (EBIT) for the period was $29.6m, with the decline of 16% largely attributed to the trading performance during the July to October period. The Company shifted its strategy during this four-month period to move away from discounting, which had a significant impact on revenue. A refined approach to event and promotional campaigns in November and December saw a turnaround in performance, with Group revenue for continued operations and same store sales increase by 2.9% and 1.1% respectively across the two-month Christmas period.

Total Group revenue for the first-half was $315.4m (down 2.7% on prior year), as a result of weaker trade during the first four months of the half. The Company's e-commerce revenue increased by 68.3% to $9.5m, with online sales now accounting for 3.0% of total Group revenue.

The Company strengthened its balance sheet by reducing net debt to $20.7m from $23.0m in the same period last year. In line with the Company's policy to provide consistent dividends to shareholders whilst maintaining a strong balance sheet, the Company will pay an interim dividend on 27 March 2019 of AU2.5¢ per share, unfranked and fully imputed with conduit foreign income (maintained on FY18H1 interim: AU 2.5c per share; FY18 final: AU 2.5c per share).

In addition to a new CEO, in January the Group also strengthened its Executive team with the appointment of a new Chief Operating Officer, Andrea Slingsby, and Chief People Officer, Joanne Matthews. Both Executives bring deep retail experience and skills to the Company during this critical period of transition.

The Company opened six new stores and closed three under-performing stores, to bring total Group stores to 311 at the half-year. Michael Hill management continues to manage the structured closure of the US and Emma & Roe operations.

Australia retail segment

	31 Dec 2018 AU$'000	31 Dec 2017 AU$'000	**+/- %**
For the six months ending			
Revenue	**175,507**	184,953	**(5.1)%**
Gross profit	**110,511**	117,450	**(5.9)%**
Gross profit % of revenue	**63.0%**	63.5%	**-0.5%**
EBIT	**24,630**	32,569	**(24.4)%**
EBIT % of revenue	**14.0%**	17.6%	**-3.6%**
Number of stores	**173**	172	**1**

The Australian segment was most heavily impacted by the changes made to discounting during the first four months. Despite improvements made during the Christmas period, total revenue for the first half declined by 5.1% to AU$175.5m, with EBIT down 24.4% to AU$24.6m. Gross profit margin was stable at 63.0%. To drive improved performance, the Company has adjusted its management structure in Australia.

Review of operations (continued)

Canada retail segment

	31 Dec 2018 CA$'000	31 Dec 2017 CA$'000	+/- %
For the six months ending			
Revenue	**74,371**	73,738	**0.9%**
Gross profit	**45,966**	45,827	**0.3%**
Gross profit % of revenue	**61.8%**	62.1%	**-0.3%**
EBIT	**8,581**	10,388	**(17.4)%**
EBIT % of revenue	**11.5%**	14.1%	**-2.6%**
Number of stores	**85**	83	**2**

The Canadian segment performance saw revenue growth of 0.9% to CA$74.4m, while EBIT declined from CA$10.4m to CA$8.6m, largely attributable increased investment in the Company's workforce and higher labour costs arising from mandatory indexation and market forces. The Company's margin in Canada remained stable at 61.8%. Canada remains a core growth opportunity for the business, and a series of measures to improve productivity and sales are being undertaken to drive performance during the second half.

New Zealand retail segment

	31 Dec 2018 NZ$'000	31 Dec 2017 NZ$'000	+/- %
For the six months ending			
Revenue	**65,790**	69,685	**(5.6)%**
Gross profit	**41,241**	43,000	**(4.1)%**
Gross profit % of revenue	**62.7%**	61.7%	**1.0%**
EBIT	**15,065**	15,773	**(4.5)%**
EBIT % of revenue	**22.9%**	22.6%	**0.3%**
Number of stores	**53**	53	

The New Zealand segment recorded revenue of NZ$65.8m, down from NZ$69.7m in the prior corresponding period, with EBIT of NZ$15.1m, down from NZ$15.8m in FY18H1. However, gross profit margin lifted to 62.7% for the half against the prior corresponding period.

Review of operations (continued)

Key priorities for FY19H2

In August 2018, the Company announced a series of strategic shifts. Following an initial review over his first three months, new CEO Daniel Bracken has identified refinements to the plan and further opportunities to strengthen the retailing fundamentals of the business. These include:

- Execution in January 2019 of a cost reduction programme delivering $5 million in annualised savings
- Initiatives targeting a further $5 million in annualised cost savings
- Implementation of a more sophisticated and integrated customer-led retail operating model
- Acceleration of the Branded Collections strategy
- Opportunities to reinvigorate the company's merchandising and inventory management end-to-end processes
- Productivity improvements in the Canadian market
- Targeted activation of scaleable digital and omni-channel strategies
- A number of initiatives to drive greater efficiencies across the global store network and supply chain

Non-IFRS Financial Information

This report contains certain non-IFRS financial measures of historical financial performance. Non-IFRS financial measures are financial measures other than those defined or specified under all relevant accounting standards. The measures therefore may not be directly comparable with other companies' measures. Many of the measures used are common practice in the industry in which MHI operates. Non-IFRS financial information should be considered in addition to, and is not intended to be a substitute for, or more important than, IFRS measures. The presentation of non-IFRS measures is in line with Regulatory Guide 230 issued by Australian Securities and Investments Commission (ASIC) to promote full and clear disclosure for investors and other uses of financial information, and minimise the possibility of those users being misled by such information.

The measures are used by management and Directors for the purpose of assessing the financial performance of the Group and individual segments. The Directors also believe that these non-IFRS measures assist in providing additional meaningful information on the drivers of the business, performance and trends, as well as the position of the Group. Non-IFRS financial measures are also used to enhance the comparability of information between reporting periods by adjusting for non-recurring or controllable factors which affect IFRS measures, to aid the user in understanding the Group's performance. Consequently, non-IFRS measures are used by the Directors and management for performance analysis, planning, reporting and incentive setting. These measures are not subject to audit.

The non-IFRS measures used in describing the business performance include:

- Same store sales
- Earnings before Interest, tax, depreciation and amortisation (EBITDA)
- Earnings before Interest and tax (EBIT)
- Underlying EBIT
- One-off items

(continued)

Calculation of Underlying EBIT

Underlying EBIT has been calculated as follows:

	31 Dec 2018 $000's	31 Dec 2017 $000's
EBIT from continuing operations	28,542	43,273
EBIT from discontinuing operations	-	(28,127)
Statutory EBIT	**28,542**	**15,146**
Add back E&R and US closure costs:		
Lease settlements and onerous lease provision	111	8,376
Impairment and asset disposals	219	11,442
Other items	210	259
Add back one-off items:		
CEO and Group Executive transition costs	494	-
Underlying EBIT	**29,576**	**35,223**

Dividends

The Directors announce an interim dividend of AU2.5¢ per share (2017 - AU2.5¢), unfranked and fully imputed. The dividend will be paid on 27 March 2019 with the record date being 13 March 2019. 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

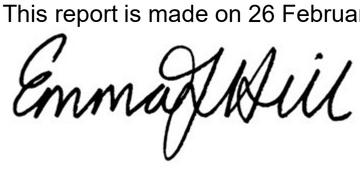
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is set out on page 8 and forms part of this report.

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 26 February 2019 in accordance with a resolution of Directors.



E J Hill
Chair
Brisbane
26 February 2019

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

As lead auditor for the review of the half-year financial report of Michael Hill International Limited for the half-year ended 31 December 2018, 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

Ernst & Young

Alison de Groot
Partner
26 February 2019

Michael Hill International Limited
Consolidated statement of comprehensive income
For the half-year 31 December 2018

	Notes	31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations			
Revenue	3	**315,445**	324,107
Other income		**395**	499
Cost of goods sold		**(112,959)**	(113,984)
Employee benefits expense		**(84,313)**	(81,134)
Occupancy costs		**(30,340)**	(28,498)
Marketing expenses		**(19,205)**	(19,071)
Selling expenses		**(14,098)**	(15,096)
Depreciation and amortisation expense		**(9,650)**	(9,338)
Loss on disposal of property, plant and equipment		**(42)**	(13)
Impairment of property, plant and equipment		**(442)**	(85)
Onerous lease provision		**(5)**	-
Other expenses		**(16,211)**	(14,110)
Finance expenses		**(1,391)**	(1,534)
Profit before income tax		**27,184**	41,743
Income tax expense		**(7,653)**	(11,045)
Profit after tax from continuing operations		**19,531**	30,698
Profit/(loss) after tax from discontinued operations	10	**-**	(22,001)
Profit for the half-year		**19,531**	8,697
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges		**(154)**	376
Currency translation differences arising during the year		**2,004**	(445)
Other comprehensive income for the half-year, net of tax		**1,850**	(69)
Total comprehensive income for the half-year, net of tax		**21,381**	8,628
Total comprehensive income for the half-year is attributable to:			
Owners of Michael Hill International Limited		**21,381**	8,628
Total comprehensive income for the half-year attributable to owners of Michael Hill International Limited arises from:			
Continuing operations		**21,381**	30,629
Discontinued operations	10	**-**	(22,001)
		21,381	8,628
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company:			
Basic earnings per share		**5.04**	7.92
Diluted earnings per share		**5.03**	7.86
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share	10	**5.04**	2.24
Diluted earnings per share		**5.03**	2.23

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

	Notes	**31 Dec 2018 $'000**	31 Dec 2017 $'000	30 Jun 2018 $'000
ASSETS				
Current assets				
Cash and cash equivalents		**7,690**	18,215	7,220
Trade and other receivables	4	**30,234**	32,212	25,381
Inventories		**220,189**	224,281	192,074
Right of return assets		**573**	-	-
Derivative financial instruments	4	**175**	-	245
Other current assets		**3,979**	4,531	3,688
Total current assets		**262,840**	279,239	228,608
Non-current assets				
Trade and other receivables	4	**6,526**	3,561	2,665
Property, plant and equipment	5	**66,636**	70,937	66,666
Deferred tax assets		**58,596**	60,624	61,895
Intangible assets	6	**12,739**	10,961	12,626
Other non-current assets		**2,561**	1,852	2,888
Total non-current assets		**147,058**	147,935	146,740
Total assets		**409,898**	427,174	375,348
LIABILITIES				
Current liabilities				
Trade and other payables	4	**77,057**	74,163	49,339
Derivative financial instruments	4	**299**	764	390
Current tax liabilities		**2,336**	881	2,696
Provisions	7	**6,138**	16,030	9,386
Deferred revenue	8	**1,008**	27,905	26,476
Contract liabilities	9	**27,184**	-	-
Total current liabilities		**114,022**	119,743	88,287
Non-current liabilities				
Borrowings	4	**28,435**	41,179	35,213
Provisions	7	**6,948**	5,671	4,907
Deferred revenue	8	**2,144**	59,184	57,720
Contract liabilities	9	**57,463**	-	-
Total non-current liabilities		**94,990**	106,034	97,840
Total liabilities		**209,012**	225,777	186,127
Net assets		**200,886**	201,397	189,221
EQUITY				
Contributed equity	11	**10,266**	10,015	10,266
Reserves		**3,642**	484	1,829
Retained profits		**186,978**	190,898	177,126
Total equity		**200,886**	201,397	189,221

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

	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
		Attributable to owners of Michael Hill International Limited					
Balance at 1 July 2018		10,266	1,369	605	(145)	177,126	189,221
Profit for the half-year		-	-	-	-	19,531	19,531
Currency translation differences		-	-	2,004	-	-	2,004
Currency forward contracts		-	-	-	(245)	-	(245)
Interest rate swaps		-	-	-	91	-	91
Total comprehensive income for the half-year		**-**	**-**	**2,004**	**(154)**	**19,531**	**21,381**
Transactions with owners in their capacity as owners:							
Dividends paid	12	-	-	-	-	(9,679)	(9,679)
Option expense through share based payments reserve		-	11	-	-	-	11
Share rights expense through share based payments reserve		-	(48)	-	-	-	(48)
		-	(37)	-	-	(9,679)	(9,716)
Balance at 31 December 2018		**10,266**	**1,332**	**2,609**	**(299)**	**186,978**	**200,886**

		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	12	-	-	-	-	(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**

	Notes	**31 Dec 2018 $'000**	31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST and sales taxes)		**344,651**	373,902
Payments to suppliers and employees (inclusive of GST and sales taxes)		**(300,619)**	(309,349)
		44,032	64,553
Interest received		**33**	4
Other revenue		**395**	417
Interest paid		**(1,156)**	(1,501)
Income tax paid		**(4,394)**	(5,589)
Net GST and sales taxes paid		**(14,153)**	(15,629)
Net cash inflow from operating activities		**24,757**	42,255
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**267**	180
Payments for property, plant and equipment	5	**(6,697)**	(12,555)
Payments for intangible assets		**(1,286)**	(3,619)
Net cash (outflow) from investing activities		**(7,716)**	(15,994)
Cash flows from financing activities			
Proceeds from borrowings		**74,500**	65,000
Repayment of borrowings		**(81,500)**	(69,000)
Dividends paid to Company's shareholders	12	**(9,679)**	(9,686)
Net cash (outflow) from financing activities		**(16,679)**	(13,686)
Net increase in cash and cash equivalents		**362**	12,575
Cash and cash equivalents at the beginning of the financial year		**7,220**	5,676
Effects of exchange rate changes on cash and cash equivalents		**108**	(36)
Cash and cash equivalents at end of half-year		**7,690**	18,215

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

1 Basis of preparation and changes to the Group's accounting policies

(a) Basis of preparation

These consolidated financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001 (Cth)*.

These consolidated 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 2018 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.

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 AASB 134.

These consolidated financial statements of Michael Hill International Limited and its subsidiaries (collectively, the Group) for the six months ended 31 December 2018 were authorised for issue in accordance with a resolution of the Directors on 26 February 2019.

(b) New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting half-year and the Group had to change its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*, and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 14 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

(c) Impact of standards issued but not yet applied by the entity

(i) AASB 16 Leases

AASB 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability for minimum payments are recognised. The only exceptions are short-term and low-value leases.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim half-years within annual reporting half-years beginning on or after 1 July 2019. The Group does not intend to adopt the standard before its effective date.

1 Basis of preparation and changes to the Group's accounting policies (continued)

(c) Impact of standards issued but not yet applied by the entity (continued)

(i) AASB 16 Leases (continued)

The Group will use a modified retrospective adoption approach and expect to elect the package of practical expedients, including the use of hindsight to determine the lease term. As the Group continues to evaluate this standard and the effect on related disclosures, the primary effect of adoption will be to record right-of-use assets and corresponding lease obligations for the current operating leases. The adoption is expected to have a material impact on the Group's consolidated balance sheet, consolidated cash flow statement and statement of comprehensive income.

Management is currently evaluating the anticipated impact on the Group's consolidated financial position and results of operations, the quantitative and qualitative factors that will impact the Group as part of the adoption of this standard, as well as any changes to its leasing strategy that may occur because of the changes to the accounting and recognition of leases.

The ultimate impact of adopting the new standard will depend on the Group's lease portfolio as of the adoption date and the final discount rates used.

2 Segment information

(a) Description of segments and principal activities

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.

During the prior financial year, the Company announced the closure of the Emma & Roe brand and the Michael Hill United States segment. These segments had been substantially closed and consequently these segments were classified as a discontinued operation for the 2018 financial year and are therefore not presented in the segment disclosures below. The Emma & Roe brand operations were absorbed into the Australian segment during the 2019 financial year although they are immaterial to the segment's result.

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's continuing operations operate in three geographical segments: Australia, New Zealand and Canada.

The corporate and other segment includes revenue and expenses that do not relate directly to the relevant Michael Hill 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.

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.

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.

2 Segment information (continued)

(b) Segment results

for the period ending 31 December 2018	Australia $'000	New Zealand $'000	Canada $'000	Corporate & Other $'000	Michael Hill $'000
Operating revenue	175,507	61,273	77,880	785	**315,445**
Gross profit	110,511	38,395	48,154	5,426	**202,486**
Gross profit %	63.0%	62.7%	61.8%	-%	**64.2%**
EBITDA*	28,873	15,354	11,739	(17,774)	**38,192**
Depreciation and amortisation	(4,243)	(1,276)	(2,837)	(1,294)	**(9,650)**
Segment EBIT*	**24,630**	**14,078**	**8,902**	**(19,068)**	**28,542**
EBIT as a % of revenue	14.0%	23.0%	11.4%	-%	**9.0%**
Interest income	-	-	-	33	**33**
Finance costs	(31)	(32)	-	(1,328)	**(1,391)**
Segment net profit before tax from continuing operations	**24,599**	**14,046**	**8,902**	**(20,363)**	**27,184**

for the period ended 31 December 2017	Australia $'000	New Zealand $'000	Canada $'000	Corporate & Other $'000	Michael Hill $'000
Operating revenue	184,953	63,787	75,224	143	**324,107**
Gross profit	117,450	39,357	46,745	6,571	**210,123**
Gross profit %	63.5%	61.7%	62.1%	-%	**64.8%**
EBITDA*	37,568	15,668	13,140	(13,765)	**52,611**
Depreciation and amortisation	(4,104)	(1,237)	(2,510)	(1,487)	**(9,338)**
EBIT from discontinued operations	(20,520)	-	-	(7,607)	**(28,127)**
Segment EBIT*	**12,944**	**14,431**	**10,630**	**(22,859)**	**15,146**
EBIT as a % of revenue	7.0%	22.6%	14.1%	-%	**4.7%**
Interest income	2	-	-	2	**4**
Finance costs	8	9	-	(1,551)	**(1,534)**
Segment net profit before tax from continuing operations	**32,579**	**14,440**	**10,630**	**(15,906)**	**41,743**

* EBIT and EBITDA are Non-IFRS Information and are unaudited.
Segment EBIT for the period ended 31 December 2017 includes discontinued operations (Emma & Roe brand and the US operations).

3 Revenue

The Group derives the following types of revenue:

	31 Dec 2018 $'000	31 Dec 2017 $'000
From continuing operations		
Revenue from sale of goods and repair services	**298,269**	307,514
Revenue from professional care plans	**15,587**	15,565
Interest and other revenue from in-house customer finance program	**1,556**	1,024
	315,412	324,103
Interest income	**33**	4
Total revenue from continuing operations	**315,445**	324,107

	31 Dec 2018 $'000
Timing of revenue recognition	
Goods transferred at a point in time	**298,269**
Services transferred over time	**17,143**
Total revenue from contracts with customers	**315,412**

4 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 2018 and 30 June 2018:

	31 Dec 2018 $'000	30 Jun 2018 $'000
Financial assets at amortised cost:		
Trade and other receivables	**36,760**	28,046
Derivatives at fair value through profit or loss:		
Foreign exchange forward contracts	**175**	245
Total current	**30,409**	25,626
Total non current	**6,526**	2,665

4 Financial assets and financial liabilities (continued)

Set out below is an overview of financial liabilities held by the Group as at 31 December 2018 and 30 June 2018:

	31 Dec 2018 $'000	30 Jun 2018 $'000
Financial liabilities at amortised cost:		
Trade and other payables	**77,057**	49,339
Borrowings	**28,435**	35,213
Derivative financial instruments through OCI:		
Interest rate swaps	**299**	390
Total current	**77,356**	49,729
Total non current	**28,435**	35,213

5 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2018, the Group acquired assets with a total cost of $6,697,000 (31 December 2017 - $12,555,000). Assets with a net book value of $309,000 were disposed of during the six months ended 31 December 2018 (31 December 2017 - $193,000), resulting in a net loss on disposal of $42,000 (31 December 2017 - $13,000 loss).

Impairment

An impairment charge of $442,000 was recognised during the six months ended 31 December 2018 reporting period (31 December 2017: $11,480,000). Impairment for the prior year primarily related to the impairment of assets of the discontinued Emma & Roe brand and US operations and is included in discontinued operations in Note 10.

6 Intangible assets

Acquisitions and disposals

During the six months ended 31 December 2018, the Group acquired assets with a total cost of $1,286,000 (31 December 2017 - $3,619,000). Assets with a net book value of $18,000 were disposed of during the six months ended 31 December 2018 (31 December 2017 - no disposals), resulting in no net loss on disposal as the assets were fully impaired (31 December 2017 - no loss).

Impairment

No impairment charges were recognised during the six months ended 31 December 2018 reporting period (31 December 2017: $48,000).

7 Provisions

	31 Dec 2018			30 Jun 2018		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Employee benefits	**2,297**	**2,219**	**4,516**	3,555	2,063	5,618
Warranty provision*	**1,935**	**-**	**1,935**	2,972	-	2,972
Make good provision	**199**	**4,720**	**4,919**	356	2,844	3,200
Restructuring costs	**1,094**	**-**	**1,094**	1,897	-	1,897
Other provisions	**613**	**9**	**622**	606	-	606
	6,138	**6,948**	**13,086**	9,386	4,907	14,293

* The comparative balances for 30 June 2018 includes returns provisions that are now presented as refund liabilities in the current year (see note 9).

8 Deferred revenue

	31 Dec 2018			30 Jun 2018		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Lease incentive income	**1,008**	**2,144**	**3,152**	782	2,230	3,012
Deferred service revenue	**-**	**-**	**-**	24,686	55,276	79,962
Deferred interest free revenue	**-**	**-**	**-**	1,008	214	1,222
	1,008	**2,144**	**3,152**	26,476	57,720	84,196

9 Contract liabilities

	31 Dec 2018			30 Jun 2018		
	Current $'000	**Non-current $'000**	**Total $'000**	Current $'000	Non-current $'000	Total $'000
Deferred service revenue	**24,512**	**56,286**	**80,798**	-	-	-
Deferred interest free revenue	**1,393**	**582**	**1,975**	-	-	-
Refund liabilities	**1,279**	**-**	**1,279**	-	-	-
Lifetime Diamond Warranty (LTDW)	**-**	**595**	**595**	-	-	-
	27,184	**57,463**	**84,647**	-	-	-

(i) 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.

9 Contract liabilities (continued)

(ii) Deferred interest free revenue

Deferred interest free 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.

(iii) Refund liabilities

Refund liabilities recognises the estimated returned sales under the Group's return policy, being 30 day change of mind in Australia and New Zealand and 60 day change of mind in Canada. Management estimates the returned sales based on historical sale return information and any recent trends that may suggest future claims could differ from historical amounts.

(iv) Lifetime Diamond Warranty (LTDW)

Lifetime Diamond Warranty (LTDW) is a warranty provided to customers with the purchase of jewellery items set with a diamond (excluding watches). This has been deemed a service-type warranty and is calculated with reference to the estimated value of service provided to customers and the stand-alone value of customers obtaining the service independently. Income in relation to the LTDW is recognised in line with the estimated pattern of customers utilising this service-type warranty.

The Group adopted a modified retrospective method. Previously the LTDW was recognised as a provision under AASB 137. This is presented in Other provisions in note 7.

10 Discontinued operations

FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

Emma & Roe

	31 Dec 2017 $'000
Revenue	10,503
Expenses	(15,783)
Impairment of property, plant and equipment and other assets	(7,795)
Store exit costs	(7,445)
Loss before income tax	(20,520)
Income tax expense	6,134
Loss after income tax of discontinued operation	(14,386)
Net cash (outflow) from operating activities	(6,886)
Net cash (outflow) from investing activities	(252)
Net cash inflow from financing activities	7,038
Net decrease in cash generated	(100)

Michael Hill United States

	31 Dec 2017 $'000
Revenue	7,611
Expenses	(10,647)
Impairment of property, plant and equipment and other assets	(3,648)
Store exit costs	(931)
Loss before income tax	(7,615)
Loss after income tax of discontinued operation	(7,615)
Net cash (outflow) from operating activities	(1,545)
Net cash (outflow) from investing activities	(277)
Net cash inflow from financing activities	3,077
Net increase in cash generated	1,255

	Cents
Earnings/(loss) per share	
Basic earnings per share from discontinued operations	(5.68)
Diluted earnings per share from discontinued operations	(5.63)

11 Contributed equity

(a) Share Capital

	31 Dec 2018 Shares	30 Jun 2018 Shares	**31 Dec 2018 Half-year $'000**	30 Jun 2018 Full-year $'000
Share capital				
Fully paid	**387,438,513**	387,438,513	**10,266**	10,266

(b) Movements in ordinary share capital

	31 Dec 2018 Shares	30 Jun 2018 Shares	**31 Dec 2018 Half-year $'000**	30 Jun 2018 Full year $'000
Ordinary shares				
Opening balance	**387,438,513**	387,438,513	**10,266**	10,015
Options expired	**-**	-	**-**	251
Closing balance	**387,438,513**	**387,438,513**	**10,266**	**10,266**

12 Dividends

(a) Ordinary shares

	31 Dec 2018 $'000	31 Dec 2017 $'000
Final dividend for the year ended 30 June 2018 of 2.5 cents (2017: AU 2.5 cents) per fully paid share paid on 28 September 2018 (2017: 29 September 2017)	**9,679**	9,686

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

	31 Dec 2018 $'000	31 Dec 2017 $'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 (2017 - AU 2.5 cents), unfranked and fully imputed*. The aggregate amount of the proposed dividend expected to be paid on 27 March 2019 out of retained earnings at 31 December 2018, 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.

12 Dividends (continued)

(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 (31 December 2017 : NZ$3,905,000). The amount of imputation credits is dependent on the NZD exchange rate at the time of payment of the dividend.

13 Events occurring after the reporting period

There have been no significant events after the end of the reporting period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial years.

14 Changes in accounting policies

Except as described below, the accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* that require restatement of previous financial statements. As required by AASB 34, the nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the interim condensed consolidated financial statements of the Group.

(a) AASB 9 Financial Instruments – Accounting policies applied from 1 July 2018

AASB 9 Financial Instruments replaces AASB 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The adoption of AASB 9 has not had a significant effect on the Group's accounting policies related to financial assets, financial liabilities and derivative financial instruments. No adjustments were required to be made to the opening financial statement balances.

(i) Investments and other financial assets and liabilities

Except for certain trade receivables, under AASB 9, the Group initially measures a financial asset at its fair value.

Under AASB 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

During the year, the Group's management assessed each forward exchange contract entered into and classified these financial instruments into the appropriate AASB 9 categories.

Of the forward exchange contracts entered during the reporting period, the Group's practice is to hold all of the forward exchange contracts for payment of contractual cash flows. These have been measured at fair value through profit or loss to significantly reduce a measurement inconsistency due to foreign currency movements in trade creditors.

The accounting for the Group's other financial assets and liabilities remains largely the same as it was under AASB 139.

14 Changes in accounting policies (continued)

(a) AASB 9 Financial Instruments – Accounting policies applied from 1 July 2018 (continued)

(i) Investments and other financial assets and liabilities (continued)

Impairment

The adoption of AASB 9 has changed the Group's accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are not paid. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. Any financial asset remaining in default after 150 days is written off.

The adoption of the ECL requirements of AASB 9 resulted in an immaterial change to the Group's financial assets. Therefore, no adjustment to Retained Earnings was required.

(ii) Derivatives and hedging

Cash flow hedges that qualify for hedge accounting

The Group applied hedge accounting prospectively. At the date of the initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire interest rate swap agreements in the Group's cash flow hedges and, as such, the adoption of the hedge accounting requirements of AASB 9 had no significant impact on the Group's financial statements.

(b) AASB 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced AASB 118 *Revenue*, AASB 111 *Construction Contracts* and related interpretations.

The Group has adopted AASB 15 using the cumulative effect method (with practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 July 2018). Accordingly, the information presented for 2018 has not been restated - i.e. it is presented, as previously reported, under AASB 118, AASB 111 and related interpretations.

The Group adopted the new standard using the modified retrospective method and elected to apply that method to all contracts not completed at the date of initial application. All contracts were completed at the date of initial application as a result there no adjustments to retained earnings at the date of transition. The following table summarises the impacts of adopting AASB 15 on the Group's interim statement of financial position as at 31 December 2018 and its interim statement of profit or loss and OCI for the six months then ended for each of the line items affected. There was no material impact on the Group's interim statement of cash flows for the six month period ended 31 December 2018.

14 Changes in accounting policies (continued)

(b) AASB 15 Revenue from Contracts with Customers – Impact of adoption (continued)

31 December 2018	As reported	Adjustments	Amounts without adoption of AASB 15
	$'000	$'000	$'000
ASSETS			
Current assets	**262,840**	-	**262,840**
Inventories	220,189	573	220,762
Right of return assets	573	(573)	-
Non-current assets	**147,058**	-	**147,058**
Total assets	**409,898**	**-**	**409,898**
LIABILITIES			
Current liabilities	**114,022**	**(171)**	**113,851**
Current tax liabilities	2,336	(171)	2,165
Provisions	6,138	1,279	7,417
Deferred revenue	1,008	25,905	26,913
Contract liabilities	27,184	(27,184)	-
Non-current liabilities	**94,990**	**(595)**	**94,395**
Deferred revenue	2,144	56,869	59,013
Contract liabilities	57,463	(57,463)	-
Total liabilities	**209,012**	**(766)**	**207,754**
Net assets	**200,886**	**766**	**201,652**
EQUITY			
Reserves	3,642	2	3,644
Retained profits - opening balance	177,126	-	177,126
Retained profits - movements during the half-year	9,852	764	10,616
Total equity	**200,886**	**766**	**201,652**

For the six months ended 31 December 2018	As reported	Adjustments	Amounts without adoption of IFRS 15
	$'000	$'000	$'000
Revenue	315,445	593	316,038
Profit before income tax	27,184	593	27,777
Income tax expense	(7,653)	171	(7,482)
Profit from continuing operations	**19,531**	**764**	**20,295**
Profit for the half-year	19,531	764	20,295
Total comprehensive income for the half-year, net of tax	**19,531**	**764**	**20,295**

(c) AASB 15 Revenue from Contracts with Customers – Accounting policies

(i) Sale 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.

14 Changes in accounting policies (continued)

(c) AASB 15 Revenue from Contracts with Customers – Accounting policies (continued)

(i) Sale of goods - retail (continued)

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, recognising a contract liability and corresponding right of return asset.

The refund liability and corresponding return of asset was presented in the current year in line with AASB 15, with the corresponding comparative balance presented in note 7 as Provisions.

(ii) Sale of goods – Lifetime Diamond Warranty (LTDW)

The Group offers a Lifetime Diamond Warranty (LTDW) which forms part of deferred revenue until the service is performed or at such a time the owner or product lifetime ceases. The LTDW is a service-type warranty provided to retail customers on diamond purchases, which provides assurance against lost, chipped or broken diamonds during normal wear. The Group recognises the deferred 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 consolidated statement of comprehensive income.

Since the Group has adopted using the modified retrospective method and applied the practical expedient, the LTDW provision recognised relating to completed contracts were recognised under AASB 137 Provisions. Therefore, no adjustments to prior period or opening balances were recognised relating to LTDW's upon transition.

(iii) 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 consolidated statement of comprehensive income.

This is consistent with the treatment under AASB 118.

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

Interest revenue is recognised on the in-house customer finance program when consideration is deferred. The Group concluded that there is a significant financing component for those contracts where the customer elects to pay in arrears considering the length of time between the customer's payment. The transaction price for such contracts is adjusted to take into consideration the significant financing component. 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.

This is consistent with the treatment under AASB 118.

15 Cash flow information

(a) Reconciliation of profit after income tax to net cash inflow from operating activities

	Notes	**31 Dec 2018 $'000**	30 Jun 2018 $'000
Profit for the half-year		**19,531**	8,697
Adjustment for			
Depreciation and amortisation		**9,970**	10,986
Impairment - property, plant and equipment		**442**	11,528
Non-cash employee benefits expense - share-based payments		**(37)**	272
Make good interest		**88**	-
Net loss on sale of non-current assets		**42**	14
Other non-cash expenses		**-**	34
Net exchange differences		**249**	442
Change in operating assets and liabilities, net of effects from purchase of controlled entity and sale of engineering division:			
(Increase) / decrease in trade and other receivables		**(8,777)**	(9,112)
(Increase) / decrease in inventories		**(29,245)**	(19,234)
(Increase) / decrease in deferred tax assets		**3,244**	(4,178)
(Increase) / decrease in other non current assets		**322**	222
(Increase) / decrease in other current assets		**(300)**	(563)
(Decrease) / increase in trade and other payables		**26,110**	26,248
(Decrease) / increase in current tax liabilities		**(392)**	575
(Decrease) / increase in provisions		**1,447**	10,359
(Decrease) / increase in deferred revenue		**2,063**	5,965
Net cash inflow (outflow) from operating activities		**24,757**	42,255

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 financial statements and notes set out on pages 9 to 27 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that the Michael Hill International Limited will be able to pay its debts as and when they become due and payable.

This declaration is made on 26 February 2019 in accordance with a resolution of Directors.

Emma J Hill

E J Hill
Chair
Brisbane
26 February 2019

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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 2018, 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 2018 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 2018 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*.

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane
26 February 2019

Directors	E J Hill B.Comm., M.B.A. *Chair* 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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